★ MARKET AT CRITICAL STAGE ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

EPTEMBER 10, 1960 85 CENTS

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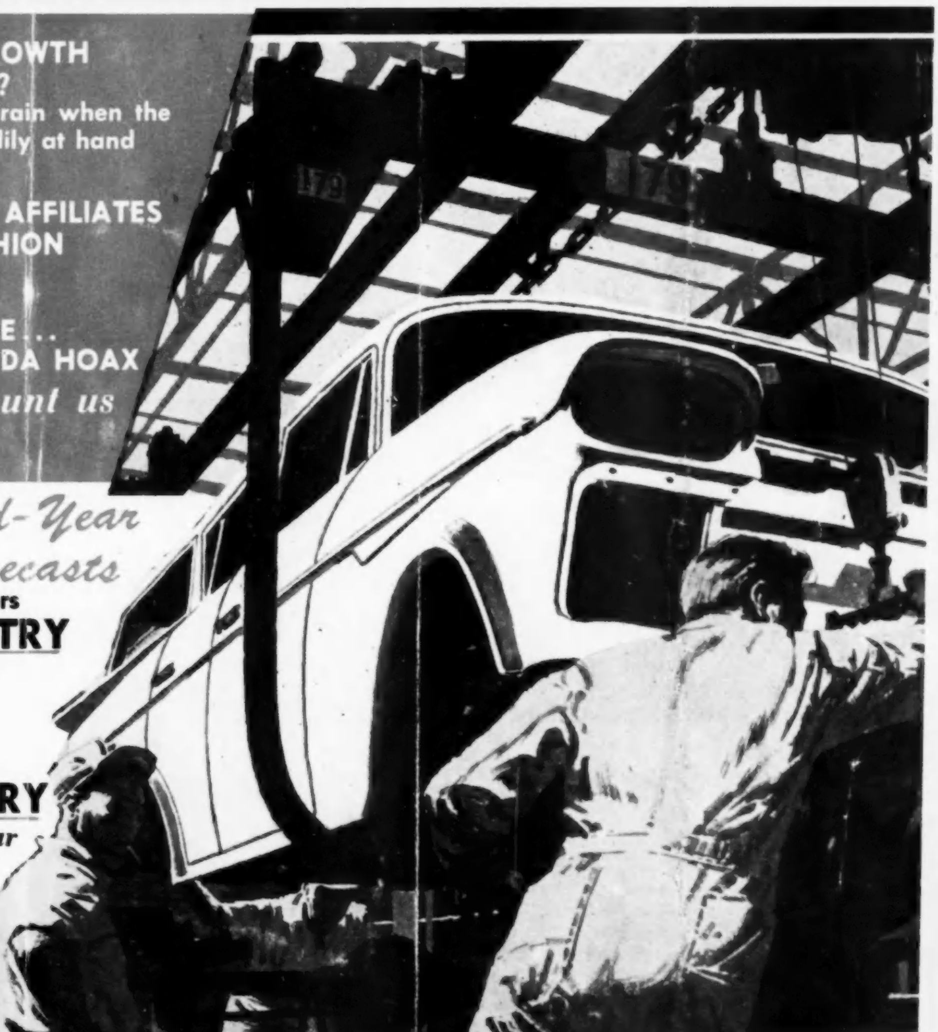

Exploration and Development
OPENING UP THE CANADIAN WILDERNESS IN BRITISH COLUMB
By W. E. GREENING

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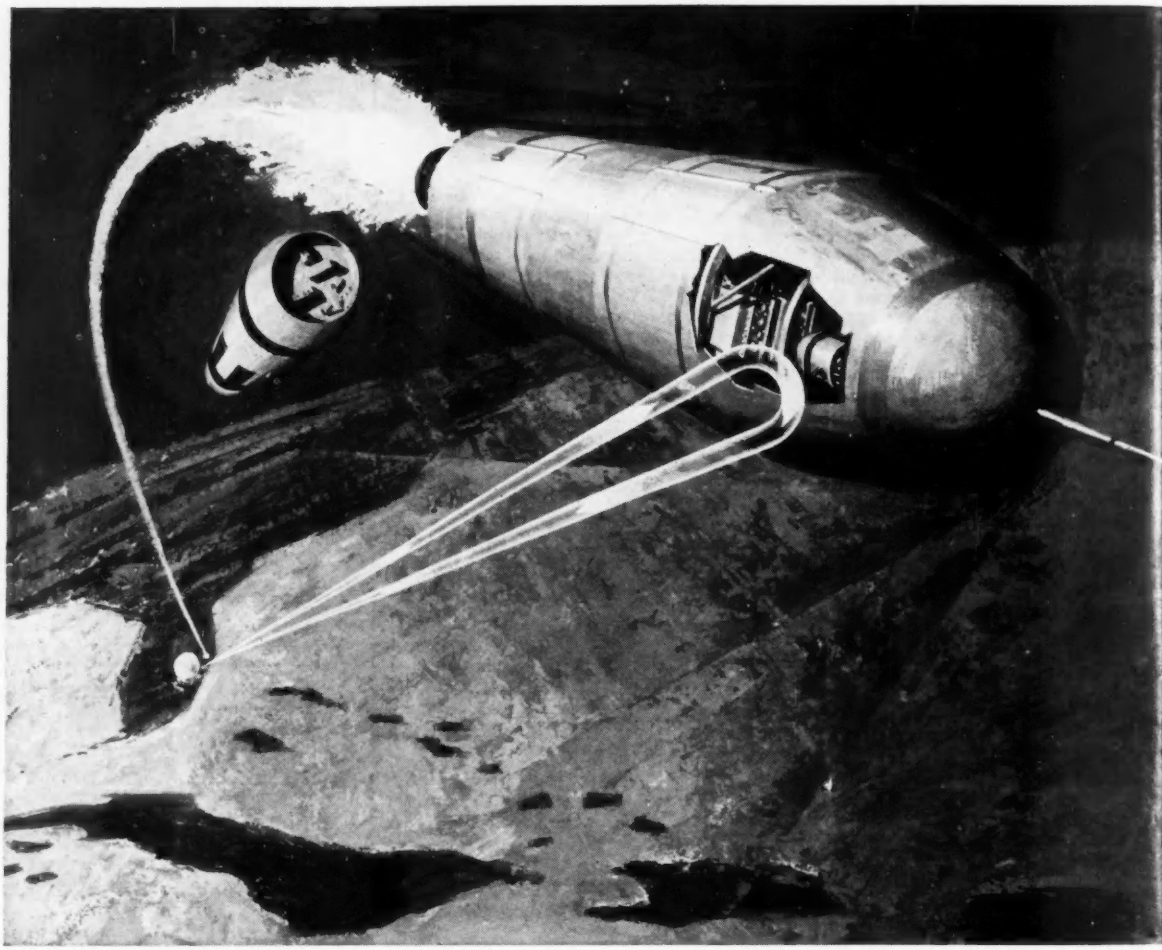
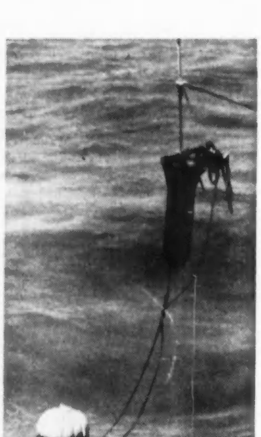


The Command Guidance System for the Air Force Titan, shown here as the first and second stages separate, was developed by Bell Telephone Laboratories and is manufactured by Western Electric. Flight information is analyzed by a Remington Rand-Univac computer.



Nose cone of an Air Force Thor-Able test missile, guided by "brains" developed for the Titan, being recovered from the South Atlantic.

How the Air Force puts Titan on Target!

Bell Telephone Laboratories Command Guidance System gives deadly accuracy to new ICBM

Suppose you were asked to guide a 110-ton missile into space with a controlled velocity so that its nose cone could then sail free of all control and hit a tiny preselected target area 6000 miles away.

This was the objective for Titan which was given by the Air Force to Bell Telephone engineers and scientists. The result was a new Command Guidance System which guides Titan with "pinpoint" accuracy.

For the first few hundred miles of flight, a ground control center tracks the missile and sends instructions to keep it precisely on course. Commands are also sent to cut the engine off at the moment of proper velocity.

To show how accurate this guidance must be: *at the time of cut-off, when Titan may be traveling some 24,000 feet per second, a difference of one foot per second in the speed could cause a miss of one mile.*

The system has already guided missile nose cones so accurately that they could be recovered thousands of miles away by waiting ships. And it will play a key role in forthcoming satellite and space probes.

This new guidance system is the product of our many years of communications research and experience—which also help bring you the finest telephone service in the world.

BELL TELEPHONE SYSTEM

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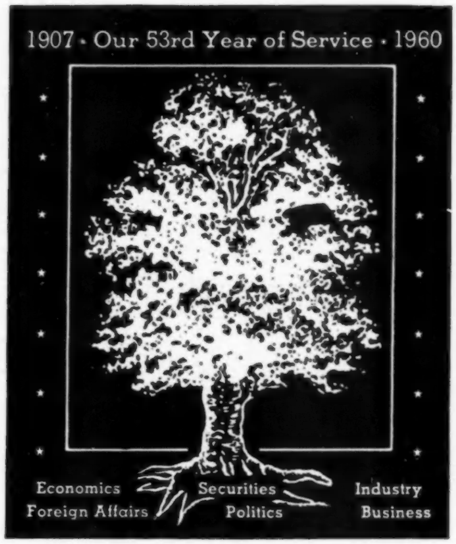
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

KHRUSHCHEV'S ATTEMPT AT A COUP DE GRÂCE . . . Khrushchev must be a very sick man indeed, and for that reason seems anxious to finish off the United States before his demise.

For what other conclusion can you have for Nikita's determination to sneak into our country through the vehicle of the UN, if not to be able to remind the world that he was strong enough to keep the President out of Russia, and to show them that Ike is "too weak" to prevent him from coming to the U.S.A.

Undoubtedly at this very moment his subversive agents in the various countries of Asia, the Middle East and Africa are being instructed to use this maneuver to convince the great masses of these countries that the Soviet Union leads the world, and has become so strong that the United States shakes in its boots and is afraid to block his entry to our country.

And what is more, they will be able to convince the great mass of illiterate people in those countries who are unaware of the fact that Khrushchev can claim the right to come to this country as a representative to the United Nations, and that the United States can only stop him if we feel that his coming will create an incident — an assassination for example — that would imperil *our friendly relations with the Russian people*, or even trigger a war.

And the press has also recently suggested the possibility that at the same time the Communist-oriented Fidel Castro may come to back up Mr. Khrushchev in the guise of Cuban representative to the United Nations, so that Moscow can further belittle the United States by showing we are unable even to prevent Fidel, who is the head of a very weak country, from coming here to our land, despite the insults he has heaped upon us. It is easy to see the fun the Russians have had since the Summit Conference in building up a propaganda weapon which they believe they can use decisively against us.

And they have also thought out a follow-up in the shape of a new Gold Ruble to be valued at $2.50 against the American dollar, with which they intend to greet the in-

We call the attention to the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907 — *"Our 53rd Year of Service"* — 1960

coming Administration in January 1961. And the Machiavellian purpose behind this move will be to create the illusion of a $2\frac{1}{2}$-to-1 ratio of Russian financial superiority over the dollar. For full details of this nefarious plan see our story, "Russia's Gold Ruble — The Commies' Propaganda Hoax — That May Come to Haunt Us", appearing in this issue, which shows how by one scheme or another Russia hopes to undermine the American economy and finances — as well as the possibilities in this maneuver.

Certainly the United States cannot sit by without taking steps to prevent Khrushchev from coming here, because without question the security measures for Nikita or Fidel could not possibly be adequate in the face of the insults they have offered the American people. We certainly do not have to permit either one of these diplomats in disguise to come here.

On the score of the new Gold Ruble, Presidential election year or no, we must act without partisanship — patriotically and unselfishly — in the interests of strengthening our economic and financial position at home in a way that will hold the respect of the world, and prevent Mr. Khrushchev from administering the "Coup de Grâce" contemplated.

(A RED SUMMIT MEETING UNDER U N AUSPICES? . . . Just as we were going to press we received a flash on the news ticker that a meeting of the heads of all Communist states in Eastern Europe is shaping up for the Assembly Session at the United Nations.

Does this mean that Khrushchev intends to hold a Communist Summit Meeting in the United States —too?

This must be the "bold" step that was decided upon when the Communist leaders visited Nikita at his vacation headquarters in the Crimea, and is clearly another calculated move in his campaign to make his visit the "all-out" decisive moment in his struggle with the United States.)

WHAT HAS HAPPENED TO US? . . . The deterioration that has taken place in the moral character of our people from the top echelons down to the lowest strata of society, has progressed to such a degree that I do not know the United States any more.

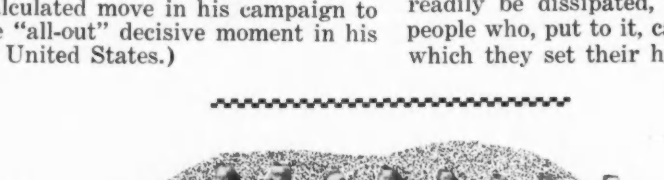
Before World War I the people of this country may have been naive and strait-laced as a class, yet firm in integrity and patriotic fervor. But the situation changed when the boys came back after the first World War was "won."

Their experiences among the people desperately struggling for survival in the war-torn countries, and the terrible sights they had seen, produced a disillusionment regarding moral values that communicated itself to their friends and associates at home. Their ideas shook us to our depths when they knowingly discussed the chicanery in the financial and commercial manipulations that were going on in Black Market operations which were foreign to our land.

And in the midst of this came unenforceable prohibition, with its Capones and their ilk, and millions of law-abiding citizens began dealing with bootleggers and frequenting speakeasies for a lark.

And the disillusionment and deterioration went on through World War II and after, as the newspapers filled with the daily recounting of dishonesty among the "higher ups", the politicians and the labor leaders, among others—impressing our youth —and expressing itself in the "lost generation" and beatnik ideologies — in juvenile delinquency — so that it has now reached a point where something must be done to bring about a resurgence of the spirit that made this country great.

On this resurgence rests the future of our land, for, as we all know, the strength of a nation does not depend on money and resources, which can readily be dissipated, but on the character of its people who, put to it, can accomplish anything upon which they set their hearts.



As I See It!

By McClellan Smith

RUMP SESSION OF CONGRESS

COST of the post-convention Session of the Congress could be dismissed with the shrug of the shoulder in these days of multi-billion expenditures of government. Perhaps electrical costs of lighting and air-conditioning the Chambers of Congress, printing the Congressional Record, etc., ran to $10 million—a very tiny fraction in a budget of billions. This seemingly niggard sum, however, represents

the income tax collections from more than 20,000 "average" American families. And what was accomplished?

Inertia, a damning sort of word, but a correct indictment of the Congress, demands some explanation and we try to give it here. To do so, we have to go back to the beginning.

From the opening of the Second Session of this Congress, early in January, there have been 129 working days (Saturdays, Sundays and holidays excepted). In that period the Senate sat 118 days, just squandering the other eleven. The upper chamber, however, violated tradition by sitting 11 minutes per day over the eight-hour union limit for a day's work.

The House tossed away 19 days when it sat only 110 of the 129 working days, and then for an average of only four hours and three minutes per Session.

From January 6 to July 31 (last date for which firm figures are available) the Senate enacted only 78 bills into public law, but managed to enact eight more private measures, primarily bills for the relief of indiduals. The House record was somewhat better, but nothing to shout about. The lower chamber enacted 215 pubic bills against 126 of the private variety.

As July opened and Party conventions loomed "around the corner," pending in Congress were four bills which rightfully carried the "must" label — they were appropriations measures for Foreign Aid, Defense, Public Works and three Government Departments. Based on past Congressional performance they could have been passed had Congress deferred its convention rush by so little as a single day.

The Democratic leadership, as personified by Senate Majority Leader Lyndon B. Johnson and House Speaker Sam Rayburn, both of Texas, decreed otherwise. They engineered things so that Congress would recess until August — the Senate August 8, the House the 15th. Their engineering was entirely political, designed to give the Majority Party political advantage in the handling of socialistic measures such as Federal Aid to Education, a Minimum Wage statute and an omnibus housing bill.

So, what happened?

On August 8th the Senate assembled, the House a week later. Very promptly the Senate was given the opportunity to act on the Civil Rights plank of the Democratic platform, but the Majority "leadership" promptly acted to table (kill) the measure until next year.

Next, the Upper Chamber was called upon to act on the Democratic sponsored compulsory health insurance measure, tied to the Social Security System of taxation. This proposal was promptly repudiated by the Democratic Majority which went along with the President's idea that medical care for the aged should be an equal Federal-State responsibility.

Then there was the $1.25-an-hour minimum wage measure, vociferously supported by the Democratic candidate for the Presidency, and supported at a lower figure by Speaker Rayburn. This measure, despite the pleadings of the Democratic nominee who wrote a bill completely trampling rights of the States to regulate commerce within their own borders, was abandoned by the Democratic leaders who simply could not control the Congress despite its 2-1 majority in both Houses.

"See You All on the Road Show"

© 1960, New York Herald Tribune I.

A prime campaign issue has been the lack of leadership by the present Administration and the political Party it is amenable to. And now what has the "rump" Session of Congress brought to light?

The answer?

The Minority Party, which loudly proclaims GOP lack of leadership, simply cannot lead it's own forces in the Houses of Congress. It cannot muster enough strength within Democratic ranks to pass the legislation on it's "must" agenda. How, in the name of High Heaven, can it be expected to supply the leadership for a Nation of over 170 million people?

In summary the President on August 8 sent the Congress a 21-point legislative program, asking that it be favorably acted upon prior to hoped-for Labor Day adjournment. The program was not new. It had been in the hands of Congress since last Jan. 6

Mr. Rayburn, prime mover in the support of Sen. Lyndon Johnson for the nomination obtained by Senator Kennedy, declared the President was "silly" to expect the enactment of such a program in so limited a time, conveniently forgetting that just a year ago, in it's rush for adjournment, the Congress in the short time of ten days, passed 436 bills — 191 in the House, 245 in the Senate.

If Messrs. Kennedy, Johnson and Rayburn have demonstrated leadership during this shirt-tail Session of Congress, then we must write a new dictionary definition of the word — the definition to be the reader's choice.

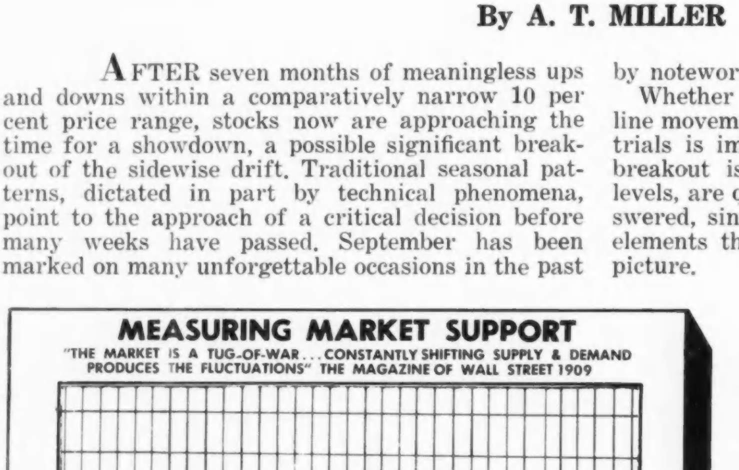
Market At Critical Stage

With the summer over, September, when everybody gets back to work, has always been a month of trend clarification. In prior years some of the most significant developments have come to a head at this time. This year it is declining interest rates vs. flight of short term money and increased gold exports that are of important significance in our calculations. This, on top of the uncertain outlook in the business picture, which would at all times call for caution, now looms up as a decisive factor. On top of this, Khrushchev's decision to attend the UN Sessions in New York, with its threat of serious international developments, poses a new handicap to market sentiment that we cannot well ignore. This is a time for caution and for taking profits on issues you do not wish to hold through a sizeable decline.

By A. T. MILLER

AFTER seven months of meaningless ups and downs within a comparatively narrow 10 per cent price range, stocks now are approaching the time for a showdown, a possible significant breakout of the sidewise drift. Traditional seasonal patterns, dictated in part by technical phenomena, point to the approach of a critical decision before many weeks have passed. September has been marked on many unforgettable occasions in the past by noteworthy turning points.

Whether a departure from the February-August line movement within a 65-point range in the Industrials is imminent, or whether, if it develops, the breakout is likely to be toward higher or lower levels, are questions that cannot be categorically answered, since much depends on the important new elements that will enter the business and political picture.



Two factors of prime importance are the events that seem to be foreshadowing an unofficial "summit conference" at the forthcoming General Assembly meeting of the United Nations two weeks hence, and the outcropping economic weaknesses that look like symptoms of a topping out process witnessed in earlier mature bull markets.

The announcement from Moscow that Soviet Premier Khrushchev had decided to lead the Russian UN delegation to New York, touched off a series of official and unofficial comments around the world that may herald trouble on the international scene.

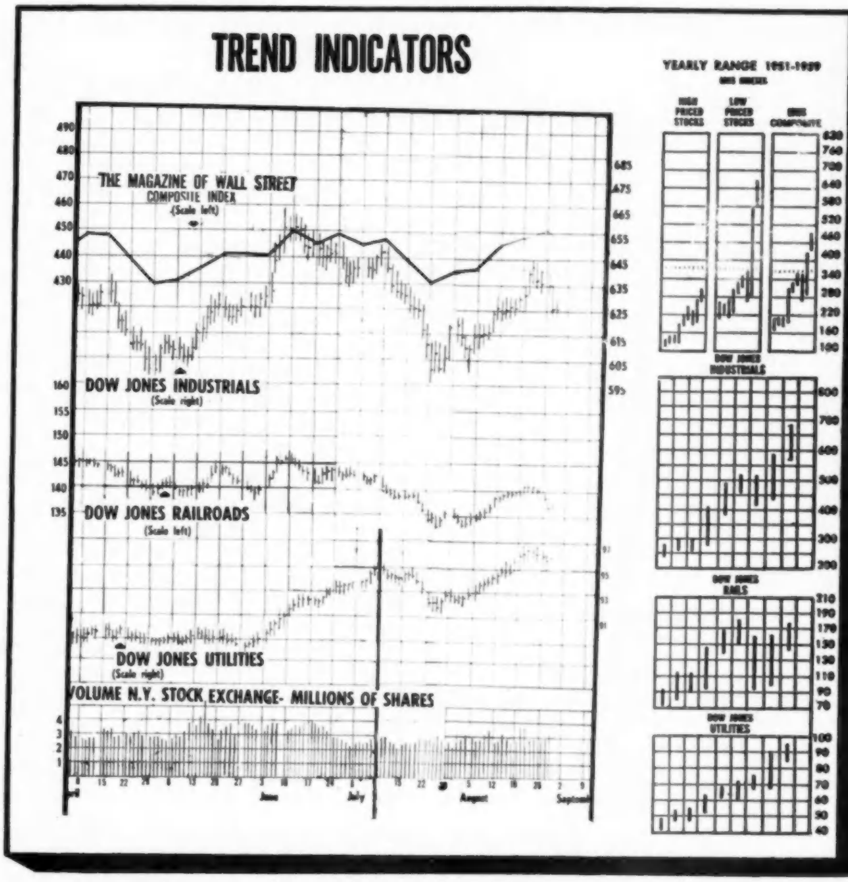
In stressing this point we do so to convey the thought that there are unforeseeable factors in the developing picture that could produce the kind of repercussions that could have a serious effect on financial markets.

The Business Outlook

On the economic front it is becoming increasingly apparent that industrial activity has failed to recover from the summer slack as vigorously as could be desired. If national production is not still slipping, as some observers believe, it certainly is not rising with the degree of confidence usually characterizing late summer and early autumn trends. There seems little doubt at the moment that another influx of disap-

pointing interim earnings reports is to make headline news in another month. Pessimistic projections of third quarter results scarcely can be expected to whip up speculative enthusiasm. In short, something more dynamic and fundamental than technical indicators, or psychological influences, will be needed to spur demand for stocks over the near term.

Evidence of restraining factors already have come to light in scattered earnings reports and dividend actions. Recent "straws in the wind" include exceptionally poor statements for the first nine months of their fiscal year for Deere and International Harvester, the sharp dividend cut ordered by Montgomery Ward directors, further cutbacks in refinery runs by Gulf Oil, Cities Service and others, furloughing of thousands of Caterpillar Tractor workers, unusually long holiday production lulls ordered in major steel mills, disappointing carloading figures (that undoubtedly will be exaggerated by the Pennsylvania Railroad strike). Need one add more to this disconcerting "box score" to make a point that the economy is far from booming? This definitely is not the right environment in which to stage a resumption of the bull market.



With the Technicians—Notwithstanding the unfavorable factors evident on all sides, one must say frankly that reasons—whether or not valid—can be mobilized in support of arguments that most of the unfavorable factors have been discounted. Technicians point out a persuasive fact, for example, that the market has refused on three distinct occasions (in March May and late July) to plunge significantly below the 1959 bottom reached a year ago this month. The three reactions just listed terminated in the 599-600 area of the Industrials, and formed what technicians refer to as a triple bottom, often a reassuring omen.

Fundamentalists—can present arguments in behalf of prosaic industrial equities that deserve consideration. They point out that most of the unfavorable economic ills have ben discounted. For example, a significant number of stocks have retreated from their bull market highs by wide margins, and now are much more modestly appraised than was the case two or three years ago. Major oils are cited as examples. In such cases price-earnings ratios are reasonable today.

And There Are Some—who choose to put a bullish interpretation on the following factors:

(1) An assumption that the Federal Reserve Board's pronouncement of an aggressive easy credit policy by ordering two cuts in the discount rate and by lowering reserve requirements is likely to stimulate industrial activity in due course.

The weakness in this argument is the resultant possible flight of short term money abroad in search of higher interest, and dangerous further loss of our gold holdings. Transfer of gold to foreign central banks in recent weeks has caused an outflow of about $300 million. Claims by overseas creditors currently total approximately $19 billion, a sum approximating this country's entire gold holdings.

(2) The conviction that regardless of whether the next Washington Administration will be Republican or Democrat, the huge funds to be spent on a defense and space program will insure high level business activity.

The weakness in this argument is that it disregards the resulting dangerous inflation, and the possibility of a dollar devaluation or heavily increased taxation.

Favorable Attitudes—Pension funds and large investors who acquired good quality equities years ago at much more advantageous prices than currently prevailing have to date shown little inclination to sell. In addition, market strength has been aided by high margin requirements so that necessitous selling has been virtually eliminated by maintenance of a 90 per cent margin on purchases up until a few weeks ago. *(Please turn to page 720)*

A Positive Answer to a Thorny Question . . .

IS REAL ECONOMIC GROWTH POSSIBLE TODAY?

— The answer is "Yes" — for the avenues of real growth are readily at hand

By PAUL J. MAYNARD

- **Summing up the facts regarding our economy today pro and con — the growth we have made — and the stability that exists for solid expansion in the future if we continue to operate under the free enterprise system — with government the umpire**
- **The huge taxes we would have to pay if the government takes over our prerogatives**
- **How we can tear down our economy for a political idea by a power-hungry leadership — as Castro did in Cuba — and with loss of freedom too**
- **What we need and can do to make the grade**

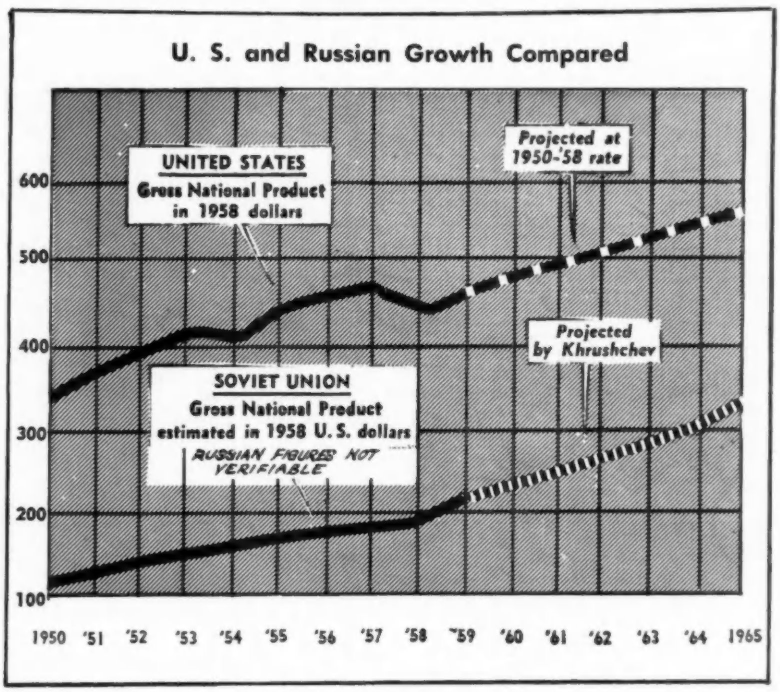
DURING recent months much has been written and spoken on the subject of economic growth. The platforms of both major political parties contain promises to take positive action to stimulate the growth of the nation's economy to higher levels of production and consumption. However, all but the most unsophisticated, or most partisan, must be aware of the fact that merely to call for "growth" without specifying the nature of such growth, or the avenues for its attainment, is nothing more than political hogwash.

It is true that the increasing complexity of our highly industrialized and *credit-based economy* has led to ever-rising demands (from those who think in terms of the course of least resistance) that the Federal government assume a larger share of responsibility for the level of general business activity. These demands led to the enactment of the Employ-

ment Act of 1946 which went further than any previous legislation in the direction of giving the central government responsibility and powers to take affirmative action to avoid depressions and maintain prosperity. The law provides for a Council of Economic Advisors to make continuing studies of the state of the nation's economic health and to report to the president their findings and recommendations.

It is safe to say that the Employment Act of 1946 is now generally regarded by many as a useful piece of legislation. However, in some quarters there has arisen the fear that this Act, under certain interpretations and administrations, could become an engine for serious inflation.

For example, if, at the least sign of a moderate business downturn (which might represent a healthy correction of an unsound condition), government action is taken to stimulate the economy either through sharply increased public works expenditures or through deficit financing, the door might easily be opened to drastic inflation.



The Unrealistic Growth Issue

Furthermore, if there is superimposed upon the Federal government's responsibility for avoiding depressions the additional burden of maintaining some arbitrarily selected economic growth rate, the danger of uncontrollable inflation is further increased.

The concept of placing upon the central government the responsibility for maintaining a specified (and higher than previous) *rate of growth for the nation's economy has evolved out of the idea of making the government responsible for avoiding depressions! It also appears to be related to the rate of economic progress of the Soviet Union.*

Even though it has been pointed out many times that comparisons between the rate of economic expansion of the United States and Russia are subject to all types of distortions and misinterpretations, there are those who insist that we must have a higher rate of economic growth than Russia or be doomed to lose the cold war.

The idea of calling on government to provide growth under our system of private enterprise, and also to demand a higher rate of economic growth from our highly industrialized society, as compared with the low-level Russian economy under totalitarianism, is an absurdity. How the Soviet autocracy operates, even without regard for costs is clearly shown in our article, "Russia's Gold Ruble—The Commies' Propaganda Hoax—That May Come to Haunt Us," appearing in this issue.

The truth of the matter is that in a free society where economic choices are made by millions of people and institutions on an "unplanned" basis, it is impossible to prearrange any stipulated rate of economic growth. *The most that can be done by the government in a free society is to remove as many encumbrances as possible to the free play of economic forces.*

► Thus, action against monopolies of all types will permit the healthy free play of the forces of competition.

► The removal of tax inequities which would tend to stimulate incentives to more dynamic effort.

► Curbing the forces of inflation before they produce an unhealthy boom which would lead inevitably to a bust, also represents a valid use of governmental authority.

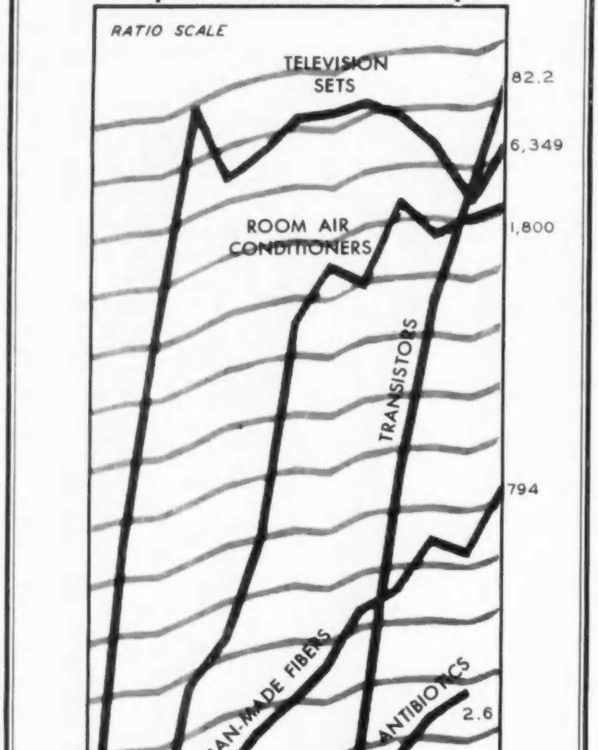
► Public reclamation projects which make possible a fuller utilization of the nation's natural resources represent important avenues for Federal action toward stimulating *sound economic growth*. And there are a number of such avenues, particularly in the Southwest, where an adequate water supply would turn these vast areas into an economic bonanza that would make jobs, stimulate our economy, and build growth in asset values.

The Important Tests of True Economic Growth in a Free Society Are . . .

— (1) Is it sustainable and free from destructive inflationary elements? This is another way of asking if it is genuine, constructive and economically productive. In the long run only those activities which result in the satisfaction of human basic needs may be considered to be productive and sustainable.

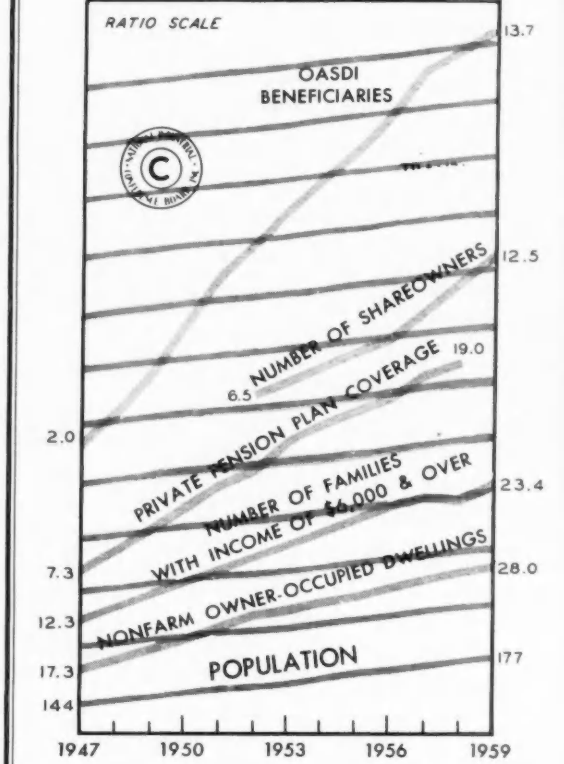
► This eliminates from consideration make-work projects such as were engaged in by the Works Progress Administration in the 1930's and even some aspects of consumer goods production (more particularly non-essential or inconsequential model changes in appliances and automobiles), the con-

Rapid Growth Products Compared with National output



Note: Light lines represent national output.

Some Areas of Growth Compared with Rise in Population



tinued sale of which is no asset to our economy.

— (2) **It eliminates armaments from consideration also. This is not to say that we should stop defense production which may be essential to national safety. But it must be recognized for what it is—a waste of labor and raw materials—a necessary expense under the pressure of international threats—but not an avenue of economic growth.**

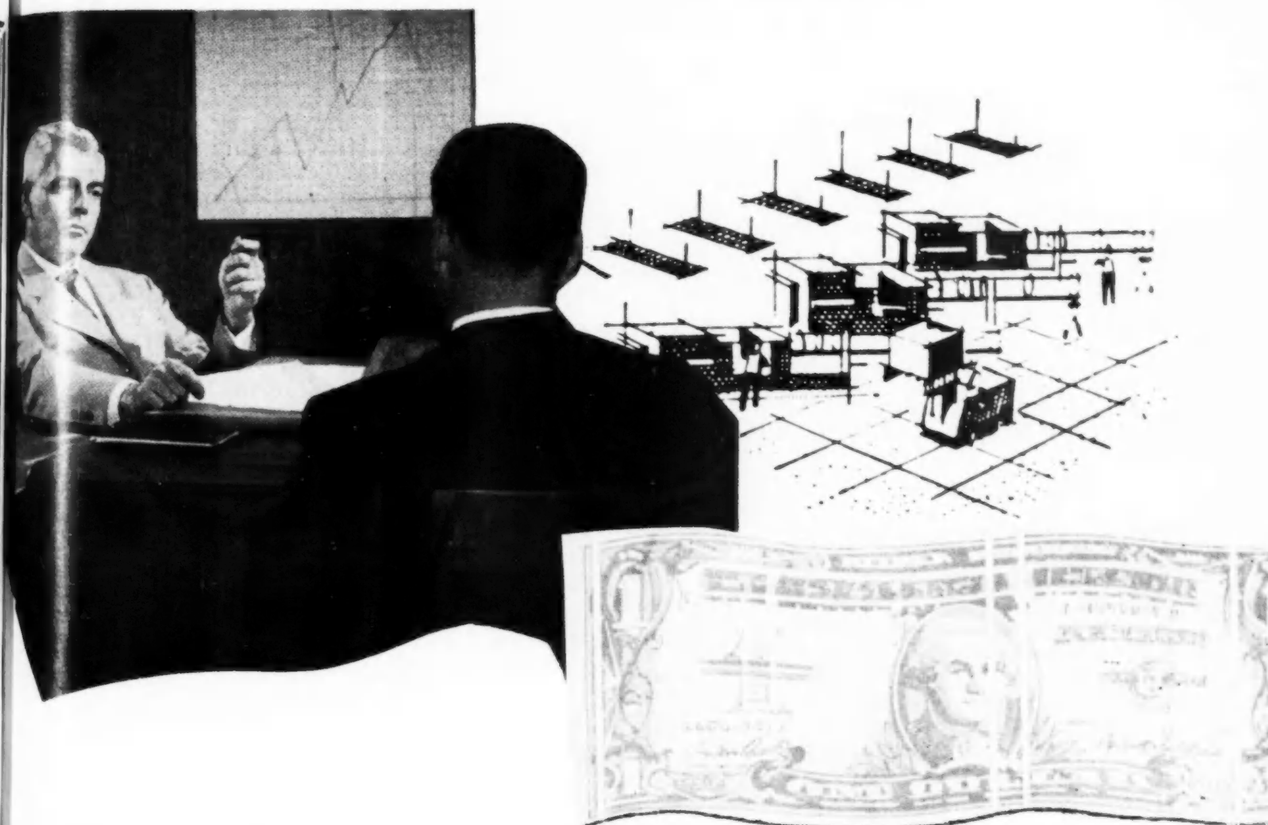
— (3) **Land reclamation projects,** transforming formerly barren desert land into fertile, productive and habitable areas, may certainly be labeled economically sound and subject to classification as having true economic growth potentials. They meet the requirements called for, which are:

● To supply constructive jobs, build solid entities, create wealth in homes and other properties and build up assets for individuals and tax revenue for the Government.

Capital Spending — Applying these criteria to *capital spending,* we find the same is true in this area, for as old and obsolete plants and equipment are replaced with the more modern ones that research and technological progress have made possible, the result is a substantial increase in new jobs—in efficiency—in productivity.

Research—This is true also of increased use of our resources for investment in *research,* which requires huge capital accumulations that make for great scientific advances and yield a bountiful harvest of new and different products that broaden our markets, enabling us to supply the goods that meet the needs of this modern age.

The remarkable progress made by West Germany in the post-war period under a similar program was commented upon by an official, who said: "The people wanted many things they had been compelled to do without, and they were *(Please turn to page 705)*



COMPANIES WITH FINANCE AFFILIATES ARE SETTING A FASHION

By ROBERT B. SHAW

- **The credit affiliate that makes money in good times and bad — helps sales — and can be expanded into other fields**
- **General Electric started it in 1905 when Electric Bond & Share was created**
- **What has been accomplished by General Motors and Sears Roebuck in more recent times . . . Ford's entry into the field . . . and others in the vanguard**
- **What it means to the investor**

FOR various reasons 1955 was a particularly good year for the automobile industry. And sales were boosted even higher by the liberal provision of credit on easier terms than ever. The extension of the average maturity on automobile loans from two to nearly three years raised some criticism, but it worked. Many financial institutions rallied to provide the heavy volume of consumer credit which the banner eight million car season required, but one which expanded most rapidly to meet this need was an affiliate — Genearl Motors Acceptance Corporation — of one of the major manufacturers. Although nothing in business is ever entirely new, GMAC has been, in a sense, a pioneer in a new type of credit institution. Its success has had important implications, both within its own corporate family and as an example for widespread imitation. Today the credit subsidiary is becoming increasingly common as a business device — a type of diversification designed to help iron out the valleys and peaks if economic shift and change.

Benefits of an Affiliated Financing Company

A manufacturing or retailing company can, to use a hackneyed metaphor, kill several birds with one stone by the establishment of an affiliated financing organization. *First of all*, the credit therewith made available to its customers may promote sales of the parent company. Wholesale purchases have long been dependent upon convenient credit

facilities, and the same is increasingly true of retail transactions today. To be sure, plenty of competition exists in the credit field, and a wide range of eager lenders has replaced the suspicion with which any request for a consumer loan would have been regarded only a few years back. Still, the credit affiliate of the seller has a strong advantage in winning any loan, as the purchaser will often prefer a simplified "under-one-roof" arrangement to shopping around for better terms, while economies can also be realized in investigation and billing processes.

Secondly, financing at either the wholesale or retail level is normally a highly remunerative business in itself.

Finally, the subsequent income derived from a high volume of receivables purchased in a peak year will tend to compensate for fluctuations in manufacturing or retailing income. The credit affiliate earnings are, to a certain extent, contra-cyclical.

General Motors Acceptance Corporation as an Example

The idea of a separate finance affiliate to secure the advantages mentioned above is by no means new. As long ago as 1905, General Electric created Electric Bond & Share Co. to reinforce the credit of the then shaky power companies and thus to facilitate the sale of electrical apparatus. But the modern type of "acceptance corporation," fully controlled by its parent, is still novel and as yet relatively infrequent.

Comparison of GMAC and GM

	GMAC Receivables Purchased $ Billions	Net Income $ Millions	Gen. Motors Net Income $ Millions	% GMAC to Gen. Motors Net Income
1959	10.2	45.4	873.1	5.2%
1958	8.3	53.3	633.6	8.4
1957	9.8	46.0	843.6	5.5
1956	9.1	45.7	847.4	5.4
1955	10.1	35.3	1,189.5	3.0
1954	6.9	33.8	806.0	4.2
1953	7.0	28.6	598.2	4.8
1952	4.5	21.1	558.7	3.8

General Motors Acceptance Corporation is probably the oldest and certainly the largest example of this new credit development.

Even GMAC in its present scope is not nearly as venerable as the date of its incorporation—1919—would indicate. Its purchases of both wholesale and retail receivables have swelled rapidly in recent years, however, and current volume—depending, of course, upon the level of automobile sales—approximates $10 billions annually.

It is a little difficult to say just what proportion of its parent's financing business GMAC enjoys. The total of receivables purchased each year by GMAC cannot be compared directly with automobile sales (representing 98% of GMAC's business), as wholesale and retail liens obviously cover the same vehicles, to an indeterminate extent. The application of various approximations suggests however, that GMAC gets about two-thirds of General Motor's financing.

Advantages of the Financing Affiliate to the GM Stockholder

This is profitable business. Last year GMAC earned a net of $45.4 millions, or a healthy 15.4% return on its $295 million net worth as of the end of the preceding year. Few industries enjoy a much higher return upon capital than this; even GM exceeded this rate only narrowly in its manufacturing operations. In appraising this return it must be remembered, of course, that GMAC, like all financial organizations, is highly leveraged, the bulk of its lending funds being provided by creditors. These creditors, holding GMAC's highly rated bonds and notes, possess the first claim against the vehicles covered and ride along with little risk and no responsibility. The provider of the smaller equity capital bears the brunt of the risk and benefits accordingly from the spread between interest rates paid upon borrowed funds and rates charged on vehicles being financed. Careful selection minimizes losses and means that the financing affiliate, originally established largely as a convenience to customers, fully carries its share of the load.

But it does more than this. Each year of peak automobile sales — and the business is normally somewhat cyclical — builds up a correspondingly high level of receivables which continue to yield a gratifying income for three years to come. (Retail automobile loans typically run for 30 months.) This steady income helps to fill in the gaps in new vehicle sales and thus tends to level out GM's overall earnings pattern.

The importance of this factor should not be exaggerated. GMAC is only a small operation compared with the overall General Motors enterprise. Yet its contribution to its parent, which is the sole owner of its preferred and common stock, is discernible. The earnings of the two companies and the percent that GMAC contributes to total income of General Motors are shown in the table on this page.

The proportion of the credit affiliate's to GM's total income is small, but clearly above drop-in-the-bucket proportions. In an exceptionally favorable automobile year, like 1955, finance earnings did, it is true, drop to as low as 3% of the total. But conversely, in a poor automobile year like 1958, such earnings swelled to a substantial 8.4%. These still reflected the high level of 1955 sales. The tail cannot wag the dog; GM must remain primarily a manufacturing enterprise and bad automobile years will unavoidably hurt it, but its successful credit affiliate can ease the pain, possibly to a greater extent than the figures show.

Other Motor Finance Affiliates

If the manufacturer's credit affiliate serves so many useful purposes, why don't more corporations have them?

The answer to this is that they are being rapidly established by major industrial organizations.

The automobile field, in which generous doses of credit comprise a nearly universal lubricant, is a natural for the finance subsidiary, and General Motors is no longer the only unit that possesses one.

Ford, *which some years ago abandoned its old Universal Credit Corporation (absorbed into CIT),*

Credit Affiliates of Leading Manufacturing or Merchandising Companies

Parent Company	Credit Subsidiary and Year Established	Net Receivables Outstanding 1959 (Millions)	Net Income 1959 (Millions)	Net Income as % of Parent Co. Income 1959	Total Assets 1959 (Mil.)	Net Worth of Credit Co. (Mil.)	Net Worth as % of Parent Co. Net Worth
Allis-Chalmers	Allis-Chalmer Credit Corp. (1956)	$ 57.7	N.A.	N.A.	$65.4	$3.5	1.2%
Case, (J. I.) Co.	J. I. Case Credit Corp.	198.9	$2.0	32.7%	219.0	22.9	19.4
Caterpillar Tractor	Caterpillar Credit Corp.	29.0	.4	.9	30.2	5.3	1.6
Deere & Co.	John Deere Credit Co. (1958)	90.8	d1.1[1]	—	92.8	13.9	3.9
General Electric	General Electric Credit Corp.	420.0	7.6	2.7	444.5	52.2	3.5
General Motors	General Motors Acceptance Corp. (1919)	4,282.7	45.4	5.2	4,220.0	313.5	5.8
International Harvester	International Harvester Credit Corp.	384.7	N.A.	N.A.	420.2	60.1	7.2
Pullman Inc.	Trailmobile Finance Co. (1955)	78.2	1.2	8.9	79.8	6.2	3.4
Sears, Roebuck & Co.	Sears Roebuck Acceptance Corp. (1956)	413.[2]	3.3	1.6	420.1	59.1	4.2
Westinghouse Electric	Westinghouse Credit Corp.	90.0[3]	N.A.	N.A.	N.A.	26.0[4]	2.8

N.A.—Not available.
d—Deficit.

1—After special charge of $917,687; If loss had been accrued, a profit of $300,000 would have been shown.
2—Volume of financing in 1959
3—Parent company's investment at 12/31/59.

established a new affiliate only last year to provide wholesale credit to its dealers and to purchase acceptable retail installment paper from them. An insurance subsidiary has also been organized more recently to coordinate operations with the credit affiliate.

As expected, this affiliate sustained a loss during its first year of operation, but it should offer important opportunities in the future. (See the MAGAZINE of WALL STREET, February 14, 1959 for a complete discussion of the significance of Ford's re-entry into automobile financing.)

Chrysler, once closely connected with Commercial Credit, lacks a financing affiliate at present. Several smaller motor manufacturers do, however, have credit subsidiaries; these include **American Motors** (primarily concerned with appliance financing), **Fruehauf Trailer** and Trailmobile (a subsidiary of **Pullman**).

Sears Roebuck Acceptance Corp.

In overall size GMAC, with net receivables in excess of $4 billion, has a vast lead over any other manufacturer or retailer-affiliated credit corporation. Several others, although far behind, compete closely among themselves for second place; a glance at the accompanying table will show the 1959 year-end volume of receivables outstanding for each. Only one other credit organization, however, shares the important characteristic with GMAC of deriving a major part of its own financing directly from the investing public, and thus qualifies at least partially as an independent unit. This is **Sears Roebuck Acceptance Corporation** *which, although its entire stock issue is owned by its parent, has over $100 million in publicly held debentures outstanding. It relies further upon bank loans and other sources of credit for additional funds.*

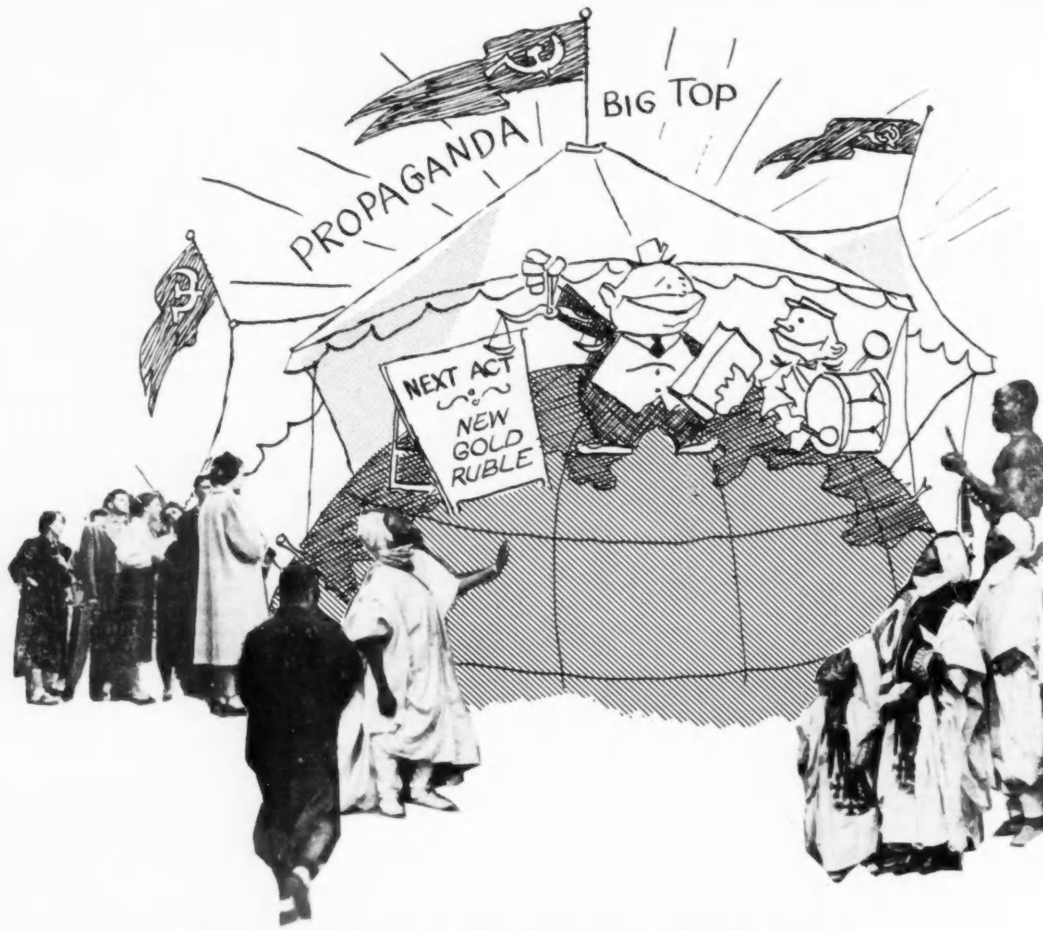
The Sears affiliate was established only in 1956 but receivables purchased from its parent have expanded rapidly to $644 millions last year. The organization is also authorized to acquire receivables from other dealers but has no present plans of doing so. Typically the acceptance corporation buys sales contracts from its parent for 90% of face or the unpaid balance, and is reimbursed periodically as the installments are collected by the parent. The important volume of outside financing in Sears Acceptance makes it essential to define its relationship with its parent precisely, even though it is a fully controlled subsidiary.

Originally, of course, the "mail order" companies sold to their customers strictly for cash. After substantial conversion was made to direct retailing, and competition with conventional department stores intensified, the ready availability of consumer credit, particularly for "big ticket" items, became an important ingredient in salesmanship. Sears met this requirement by the establishment of its acceptance corporation. Approximately half of its goods are now sold on the installment plan, with the average payment contract running for nine months. Good management combined, of course, with the general prosperity, has held credit losses (borne by the parent company) to less than ½%. Last year's net income of $3,300,000, down somewhat from the previous year largely as a result of the higher interest rates, represented a more modest return of 5.9% on the parent company's equity.

Other Credit Affiliates

While GMAC and Sears Acceptance Corporation are more familiar to the investing public, these organizations are not really typical of this trend as it has developed so far. Most credit affiliates obtain their own funds either from their parents or from institutional lending sources, and have no securities outstanding. The leader in this category, and the second largest credit affiliate of either type, is **General Electric Credit Corporation,** with $420 millions of net receivables outstanding at the most recent year-end date. *The company earned $7.6 million in 1959, or a healthy 16.9% on its parent's equity of $44.7 million at the beginning of the year.*

Other companies with credit affiliates are listed in the accompanying table. For obvious reasons the manufacturers of machinery and other types of heavy equipment are most prominent on this list. On the whole these affiliates have been established only very recently, and *(Please turn to page 716)*



RUSSIA'S GOLD RUBLE... THE COMMIES' PROPAGANDA HOAX

— *That may come to haunt us*

By JACK BAME

- **The many factors for and against the possibility of a "gold-convertible ruble" — where manipulation stops — and realities begin**
- **Positive economic and trade accomplishments by the Sino-Soviet Bloc — their gains in international trade**
- **External and domestic obstacles to a "convertible ruble" — steps Russia is taking to set the stage**
- **Russia's overall drive toward world expansion — the ten factors necessary to accomplish her purpose . . . and the outcome as we see it**

As our new President assumes office next January, the economic cold war between the Soviet Union and the West will be entering a phase of new intensity. In fact, developments over the next decade or so may well be crucial in determining which way the pendulum of economic, political and ideological global power will swing.

Russia's challenge to warfare on the economic front take on special importance at this time, with her announcement of the introduction in January 1961 of a "hard" ruble (one new unit to be worth 10 current rubles). Whether this is the first step toward the eventual creation of a "convertible gold ruble" is a matter of conjecture. Nevertheless, such action could place our dollar in jeopardy, since Russia's declared intention is to establish a $2.50 value for this ruble.

We doubt that the Soviet Union has the proper economic, trade and investment background for this new step, but the stakes are too high for us to overlook the possibility of such a move as an economic maneuver in the cold war—or as a propaganda vehicle designed to create a false impression regarding the value of our currency vis-a-vis that of the

Estimated Industrial Production Indexes 1950-1965
Western Alliances And Sino-Soviet Bloc

	Index 1950-100					Percent of Total			Average Annual	Growth Rate—%
	1950	1955	1958	1959[1]	1965[2]	1950	1959[1]	1965[2]	1950/1959	1959-1965[2]
Canada	100	133	142	150	200	3	3	3	4¾	5
European NATO	100	141	161	179	243	24	24	24	6¾	6
OAS, SEATO and Bilateral Allies	100	150	186	193	286	7	8	8	7¾	7
United States	100	129	125	141	183	48	40	35	4	4½
Total — US and Allies	100	135	141	155	211	82	75	70	4¾	5¼
European Satellites	100	157	198	215	323	7	8	9	9	7
Communist China	100	266	516	640	1,400	1	3	5	23	14
USSR	100	168	211	229	380	10	14	16	10	8.6
Total — USSR and Satellites	100	171	223	247	414	18	25	30	10.5	9

[1]—Preliminary Estimates. [2]—Projections.

Soviet Union. What are the facts?

Nefarious Background Of Russia's Ruble Manipulation

Soviet policies in the monetary field since World War II have followed a generally deflationary trend, at least since the December 1947 currency reform. The latter decree called in all outstanding ruble banknotes, to be exchanged at the ratio of 10 "old" to one "new" ruble. The nominal face value of publicly-held Soviet bonds was, at the same time, reduced in value by 33%. Savings accounts were exchanged at more favorable rates, while savings bank deposits under 3,000 rubles were not affected.

Official Dollar: Ruble Ratios

	Rubles per Dollar
BASIC RATE	
July 19, 1937 — March, 1950	5.30
March 1, 1950 — January 1, 1961	4.00
January 1, 1961 — ?	0.40
TOURIST RATE	
April 1, 1957 — January 1, 1961	10.00
January 1, 1961 — ?	?

► The official dollar value of 5.30 rubles in force during the "alignment" remained operative until March 1950, when the ruble was revalued to 4 per dollar, with a new *theoretical* gold content of 222.168 milligrams of fine gold.

► Then, in April 1959, a "tourist" ruble was created, at a special parity of 10 per dollar, usable by non-residents for non-commercial dealings in or with the U.S.S.R.

► That same month, an outright repudiation of 253,000,000 rubles worth of government bonds, held mostly by average employees, was announced, any possible payment to be "suspended or postponed" for 20 to 25 years.

These obligations, mostly lottery loans, had been bought by the people under a system of *compulsory withholdings.* Buyers had been led to believe that they would be repaid with a real profit, as the general price level had held steady—had even declined in the post-war period—a situation that had been achieved mainly by direct State Bank control over expenditures, from payroll through final consumption. Yet the people faced a rude awakening in the shape of a virtual confiscation of their "saved" assets. *It is against this dubious background that any projection of future ruble accomplishments must be considered.*

Some Positive Soviet Monetary Developments

Despite the crude methods of debt repudiation and unfavorable currency exchanges for the average citizen, the Russians have achieved some real monetary progress in the last 15 years. Gold production, according to the most widely quoted estimates, has increased to a 1959 level of about $685 million, second only to South Africa's output of $702 million.

Even taking into account Soviet gold sales of about $250 to $275 million during the year—effected to obtain needed foreign exchange for basic commodities and equipment from abroad and to offset any balance of payments deficit—*the Russian gold stock rose to a position second only to the gross gold holdings of the U.S.* Expert estimates as to the actual size of the stock range from $4.5 billion to $9 billion, demonstrating the lack of precise statistics on the matter. Production is reported to have risen more in 1960 (in fact, above South Africa's level, itself subject to labor and racial difficulties) due to the expansion of mining operations in Siberia and the use of more efficient and modern mining equipment.

However, it is generally recognized that the gold mining industry in the Soviet Union is still on a very high cost operation basis. Nevertheless, the Soviets continue to stress the importance of increasing their gold production basis, the metal to be used as the equivalent of foreign exchange reserves, to help grant loans to "friendly" nations, to compensate for unfavorable payments balances above a stipulated amount under certain agreements, and to keep at least a tenuous link between gold and the ruble. **Monetary circulation is theoretically required to be covered to 25% by gold holdings. Marxist philosophy stresses the value of a gold-backed paper money, thus further delineating the path towards the creation of a convertible gold ruble.**

The U.S.S.R. And International Trade

In the very practical world of international commerce, Moscow has made rather steady progress in the last five years. *Accounting for less than 7% of world trade in 1954, the Sino-Soviet bloc expanded their trade to about 12% of global exports and imports in 1959.*

And, while overall world trade during this period

Estimated Gross National Product Indexes 1950-1965
Western Alliances And Sino-Soviet Bloc

	Index 1950-100					Percent of Ttotal			Average Annual Growth Rate—%	
	1950	1955	1958	1959[1]	1965[2]	1950	1959[1]	1965[2]	1950-1959	1959-1965[2]
Canada	100	125	133	137	175	3	2	3	3¾	4¼
European NATO	100	128	141	152	200	23	23	23	4¾	4¾
OAS, SEATO and Bilateral Allies	100	125	145	155	207	12	12	12	5	5
United States	100	124	126	134	172	39	34	32	3¼	4¼
Total — US and Allies	100	125	134	143	185	77	71	69	4	4½
European Satellites	100	142	167	179	246	5	6	6	6½	5½
Communist China	100	147	193	216	342	5	7	8	9	8
USSR	100	139	175	185	262	13	16	17	7	6
Total — USSR and Satellites	100	141	177	190	275	23	29	31	7½	6½

1—Preliminary Estimates. 2—Projections. Source: Central Intelligence Agency Report for Joint Economic Committee of Congress, 1960.

was up over 36%, the volume of the Soviet bloc rose over 140%, or almost four times that of the total.

Most of the Soviet commerce, when carried on with non-communist countries, has been transacted via bilateral trade and payments arrangements, on the basis of sterling, accounting dollars and, more recently, other externally convertible West European currencies.

Trade with Western Europe is conducted mainly for the purpose of commercial advantage. Machinery and other materials and equipment available there are really needed by the Soviets. For intra-Soviet bloc dealings, the ruble has served as a common denominator for accounting and payments purposes.

● Transactions with Latin America, Asia and Africa are, for the most part, politically motivated, but often take advantage of realistic Soviet needs for raw materials and the penetration of new and expanded markets for the rather limited Russian output of standard capital equipment.

It is evident that the Soviets could only gain, prestige-wise and from a strictly commercial point of view, by the creation and widespread use of any form of an externally convertible ruble. But several important stumbling blocks are still in the way before such a step can become a reality. These can be conveniently divided into external and domestic obstacles.

External Obstacles To A Convertible Ruble

These considerations are of a two-pronged nature: official and unofficial. First, and of major concern, is the evident over-valuation of the basic official ruble exchange rate of 4 per dollar. The Soviets, if they have the particular goods to export, and desire to move such goods, are not concerned with any exchange parities but rather with going world prices. But if any commodity is scarce, or the Russians do not desire to sell, then the unrealistic 4:1 rate assumes importance. The ruble price would be converted at the official rate, making the price to the potential foreign purchaser so high and out of line there would be no possibility of any buying whatsoever.

But, as was lucidly demonstrated in a paper presented to a Joint Congressional Economic Committee by Robert L. Allen, of the University of Oregon, Soviet exports can be over-priced, market-priced, or under-priced, each in combination with over-priced, market-priced, or under-priced trading partner exports to the U.S.S.R.

To quote: ... "In practice, every conceivable pricing situation has arisen. The (Soviet) bloc paid premium prices on Egyptian cotton and then over-priced its exports. Indonesia was paid a premium for rubber but the accumulation of non-convertible balances wiped out the advantage. Argentina, Uruguay, Iceland and others buy Soviet petroleum at lower than market prices.

● The Soviet Union has sold tin at the world market price (stabilized by the International Tin Council) but used up all the Council's funds and broke the price after the Soviet tin had been sold.

● The Soviet Union has also sold aluminum at prices 4% to 12% lower than that offered by ... Canada, and has offered timber, pharmaceuticals and many other products at below market prices."

On the unofficial side, although the ruble is still a domestic currency, with strict prohibitions on the export of banknotes, it is presently quoted in foreign markets at unofficial or black market rates ranging from 40 to 80 per dollar, compared to the basic rate of 4 per dollar and the official tourist parity of 10 per dollar. **No currency can have a real chance of being accepted as an international monetary unit when its free or black market value is only 5% to 10% of its official worth, and when it is constantly offered, never in demand.**

Internal Hurdles To A Gold Ruble

A major deterrent to the creation of an externally convertible ruble is the wide disparity between domestic ruble prices in the Soviet Union and world prices for various goods and commodities. Intricate and varied price mechanisms are internally manipulated, with different series applicable to industrial and non-industrial goods, for instance. **Costs, prices,**

Total World Trade Volume
(Exports and Imports)
In Billions of Dollars

	1954	1959	% Change
Dollar Area	$42.8	$57.2	+33.5%
Sterling Area	39.8	48.5	+21.9%
Free Continental Europe	25.3	72.3	+185.8%
All Over Free Countries	48.5	29.8	—38.6%
Ruble-Yuan Area	11.0	26.7	+142.7%
Total	$167.4	$234.5	+36.5%

Sources: Pick's Currency Yearbook 1960.

social and political goals are all inter-related, controllable for domestic purposes but not usable for foreign comparisons.

Khrushchev himself has stated that internal prices do not correspond to production costs for all goods; that some goods are sold at a profit **and others at below actual production costs.**

This problem of price differentials for capital goods and consumer goods is complex, and outside the scope of this article. But it does present a clear-cut hindrance at present to acceptance of the ruble as a world-wide monetary trading unit. Formal external convertibility could be decreed rather freely, but the creation of a workable convertibility into goods which non-residents could purchase with accounting rubles, together with applicable prices, terms, etc., could not so simply be carried out.

The Sino-Soviet Bloc's Share In Exports and Imports of Selected Countries

	1954		1957		1958	
	Exports	Imports	Exports	Imports	Exports	Imports
Iceland	25%	18%	34%	33%	35%	32%
Finland	28	28	28	31	25	26
Greece	7	3	11	6	16	7
Turkey	17	9	18	17	24	18
Yugoslavia	3	1	28	23	29	28
Egypt	14	6	47	26	44	29
Syria	1	3	17	8	31	12
Iran	18	10	23	11	26	9
Burma	1	2	12	11	3	12
Ceylon	12	11	10	5	0	9
Uruguay	10	1	8	2	21	5

1—Less than 1 percent.

Sources: State Department, Mutual Defense Assistance Control Act of 1951, "Reports to Congress."

In addition, a *foreigner with convertible ruble balances would not as yet have the freedom of decision as to what Soviet goods he could buy.* Many commodities could not be exported, to any appreciable degree, without throwing domestic production plans and goals out of line; and due to rigid and strenuous expansion plans, there has almost always been a short supply or scarcity in one area or another. **Therefore, we have a virtually built-in limitation, at least for the present, regarding external utilization of any form of convertible ruble for the purchase of Soviet goods, arising from the very nature of the Soviet economic system of state control of production and pricing policy.**

Present Domestic Economic Revisions In The U.S.S.R.

Recently reported economic policy trends in the Soviet Union seem to indicate the possible creation of a new alignment and reorganization of the domestic price structure. *The beginning of a process of adjustment of prices of consumer and industrial goods, at the same time that the new hard ruble is to be introduced, could be interpreted as an indication that ruble prices are going to be made more competitive with free world quotations for comparable goods.* Export prices even in terms of rubles, would thus be brought closer to a realistic basis than they now are, without manipulating the exchange rate.

- The revision would fit in with general Soviet plans for wider and more severe competition in world markets, and is, ironically, based on "capitalistic" profit considerations. Prices are to be adapted to demand and costs, for both consumer and wholesale capital goods. Financial controls and auditing over all productive operations are to be tightened up. So-called inefficient industrial enterprises, which exist with the help of subsidies provided for in the state budget, or funds derived from more profitable areas, are to be abandoned or improved.
- More incentive "dividends" will be paid to regional and industrial managers who make the most efficient use of their budgetary allocations, improve quality controls and achieve more diversification of production. *These signs of economic reorganization demonstrate that the Soviets are willing to adapt their system to existing conditions and developments, are not adverse to utilizing capitalist systems of measurement and programming, are striving for more rational allocation of resources, and subsequently, more realistic cost-price relationships, taking account of both internal and external effects.*

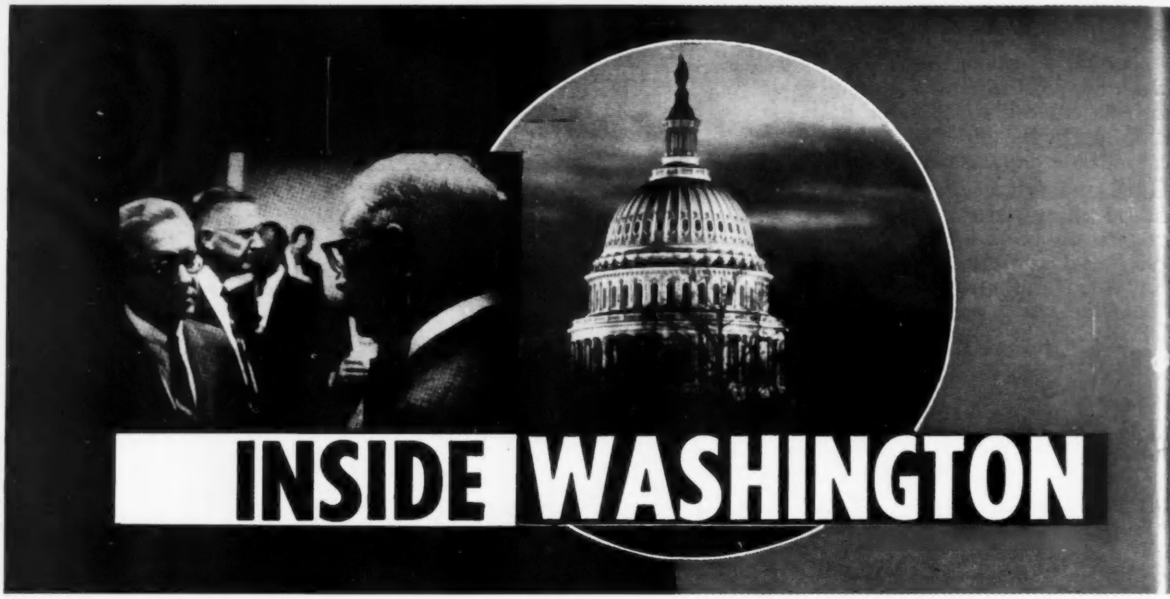
The New Ruble Of January 1961

The new monetary reform, decreeing an exchange of 10 old ruble banknotes for 1 new "heavy" unit, will go into effect in January 1961, with the conversion operation lasting three months. **An official gold value of 2.22168 grams of fine gold will apply to the new ruble, compared to the .88867 grams of fine gold defining the U.S. dollar. Conforming to these figures, the American currency will be nominally worth only 0.40 rubles, or 40 kopecks.**

But since there presently exists a tourist rate of 10 rubles per dollar (a ratio that would become 1:1 under the new system, if this special parity is preserved), and the ruble is now traded in black markets for anywhere between 1½¢ and 3¢, *it seems likely that the Russians would be happy to settle for an effective new free or black market rate of about 2 rubles per dollar. This figure has been quoted by Swiss currency experts.*

No mention of any sort of convertibility has as yet been made. But the initial aims of the reform seem to be twofold: 1) to be used as a propaganda weapon to increase the prestige of the U.S.S.R.'s economic and monetary strength, especially in the neutral nations of Asia and Africa; and 2) to trap those who have accumulated large amounts of present rubles through black market dealings or those who have acquired rubles illegally smuggled out of the Soviet Union, in speculating that convertibility of the ruble would be decreed some day by Soviet authorities.

It is rather amusing *(Please turn to page 714)*



INSIDE WASHINGTON

BY "VERITAS"

ADJOURNMENT of Congress has brought welcome relief to denizens of the marbled maze of bureaucracy that is the Nation's Capital. Federal agencies are functioning more efficiently, as is always the case when the Solons abandon Capitol Hill and take with them their penchants for investigating. It is not generally known, but when Congress is in session, upper echelons of the major Government Departments and Agencies are forced to seriously neglect many of their administrative duties in treks to Senate or House Committee rooms to answer uncounted thousands of questions which, in the vernacular, "just don't make sense," nor contribute materially to the business at hand. There will be a few Congressional investigations between now and assembly of the new Congress in January, but none will absorb valuable time of Executive Department personnel.

WASHINGTON SEES:

Red Chinese aggressions in Southeast Asia are in the making unless Khrushchev can Persuade Chou En Lai and Mao Tse Tung that international communism has more to gain through economic pressures and subversion than through military action.

Significant of Chinese intentions are reliable intelligence reports that the Red celestial empire has pulled several divisions out of North Korea and has materially reduced coastal forces along the Formosan Strait.

All of this could mean the Chinese Reds are preparing incursions into Southeast Asia — Laos, Viet Nam and possibly along the Sino-Indian border, awaiting only the end of the monsoon when troops and materiel can be moved in areas devoid of rail transportation and good roads.

The leaders of Red China feel that with a Presidential campaign in full swing, the United States would not intervene as quickly as we did when North Korea crossed the 38th parallel in an attempt to conquer Syngman Rhee's newly-formed republic.

Khrushchev is very definitely opposed to the Red Chinese plans, but may be powerless to check them unless it be a fact that after 60 to 90 days of aggression Mao and Chou would have to turn to Russia for munitions and material to carry their military ventures to successful conclusion. In short, peace in southeast Asia depends upon Khrushchev — his willingness or aversion to supplying the Chinese armies.

BUDGET for fiscal 1962, now in the making by Departments and agencies, is expected to exceed current (fiscal 1961) budget by as much as $3 billion, the major portion of the increase being for defense although prospects for a $1.2 billion carryover range from fair to good. Fact is, the country lacks the industrial plant to produce the materiel already planned and appropriated for. This will necessitate — advantageously so — diversion of materiel funds to broader, more intensified research in ultra-modern weaponry and space exploration.

CUBA'S softer attitude toward the Organization of American States (OAS) has proved to be of some satisfaction to the State Department, but fingers are "kept crossed" against future temperamental outbursts by the Cuban trio of Castro, Castro and Guevara, all definitely committed to the cause of international communism as exemplified by Moscow and Peking. Prime Minister Raul Roa's declaration that his government is willing to negotiate its differences with the United States is "taken with a pinch of salt," and a rather large one at that, although some Latin observers regard it as evidence that the Cuban triumvirate is disturbed by the unanimous support given this country by the other 19 OAS countries. Elsewhere on the Latin scene, there is some uneasiness over the fact that the Dominican Republic has discontinued acceptance of news from U. S. sources, turning to Russia's propaganda arm — Tass News Agency, which can be relied on to stir up unrest and dissatisfaction over the Diplomatic black-out the OAS nations have imposed upon the Trujillo regime.

As We Go To Press

Treasury's Ruling On Tax Exempts To Provoke Long Court Battle. The Aug. 18 proposal of Treasury Department that it tax the interest derived from tax-exempt State and municipal bonds is headed for long, drawn-out litigation unless the Department retreats from its position, primarily based upon the Life Insurance Company Income Tax Act of 1959. Treasury's proposed regulation would disallow life insurance companies the constitutional 100% exclusion of income from State and municipal bonds in the computation of taxable income. It is Treasury's yet unannounced opinion that to tax the insurance companies without levying on other holders of such securities would be unjust discrimination.

If Treasury does not retreat from its position and the matter goes to the Courts, public construction projects everywhere will be impeded, perhaps brought to a complete halt pending Court resolution of the argument. State and municipal fiscal officers see loss of markets for approximately $7 billion annual offerings of this type of security. This, they will argue — and argue now — will only add to present tax burdens if the States and municipalities have to offer bonds at rates higher than the prevailing three to four per cent. Involved are constitutional questions as well as long-accepted tradition. Outcome is now in doubt — Treasury may retreat if pressures mount; conceivably could pass the problem to the next Congress which doubtless would pass special legislation to exempt individual holders of the "tax exempts."

AFL-CIO Endorsement Of Democratic Ticket No Surprise. Labor's August 26th almost unanimous "blessing" of the Kennedy-Johnson team was a foregone conclusion, but there is no assurance that rank-and-file union voters will "follow the leader" come Nov. 8. Practical politicians point up that labor moguls "threw the book" at the late Sen. Robert A. Taft in his 1950 bid for re-election, but fell on their faces. Taft, co-author of the National Labor Relations (Taft-Hartley) Act, got his biggest pluralities in the highly unionized precincts of Ohio. This trend, according to politicos of stature, could be repeated in the Nov. 8 elections as union members, no shop steward looking over their shoulders, drop green curtains of polling booths behind them.

Kohler-UAW Dispute May Not Be Resolved For "Years." This is the considered opinion of Washington experts on the National Labor Relations (Taft-Hartley) Act, general Federal Court congestion, etc. Pointed up is fact that National Labor Relations Board (NLRB) hearings on the case consumed approximately six years; the NLRB hearing examiner's findings were the most voluminous in history ,that recorded testimony before the examiner ran into millions of words. All of this adds up to Appellate Court hearings of long duration, even longer time for a decision. No matter what the Court's ruling, one side or the other will take the decision to the Supreme Court which is not noted for speed. Forecast of the experts — Kohler will lose before the High Bench.

Russian Designs On The Congo And All New African Nations Bolstered By Careful Linguistic Studies. For some years planning to "invade" the Dark Continent, industrially and ideologically, the Kremlin has been carefully tutoring its present and future African agents in the languages (and dialects) of the areas to be won to the Red cause. In the Congo, for instance, where the Belgian French-Flemish tongue was the official language in affairs of State, Russia has sent emissaries capable of conversing in one or more of the Congolese dialects. The system has been successful in Ethiopia, Ghana and other areas of Africa. We, and emissaries of the United Nations, have had to negotiate through interpreters. This has been to the advantage of the Russians — points up the weaknesses of our training of foreign service officers and U. S. Information Agency personnel, less than 3% of whom can speak the language of the countries to which they are assigned.

Russian Lead In Space Travel And Navigation Conceded. Intelligence reports coming into

Washington now indicates the Russians will put a man into orbit before the year-end, while we will not put a five-pound monkey into spatial orbit until late October. The Russians are lifting and orbiting heavier loads than we are but, before we put a man into space, we will be assured of a reasonable chance to bring him back alive. The Russians, primarily interested at this time in propaganda effects, will put a man into space without regard for the safety of the individual. It points up the difference between the humanities of the United States and the Kremlin.

Discount Houses Hurting Quality Of Branded Merchandise. The cut-price retailers, uninhibited because of public antagonism to fair trade laws, are slashing resale prices, and at the same time demanding lower prices from the manufacturers who can meet these demands only through quality reductions. The destructive competition causes quality, usability and durability of the product to be reduced at a pace faster than manufacturers' costs can be reduced. Answer lies in legislation which would permit manufacturers to protect their trade names through the expedient of cutting off those retailers who do not closely adhere to suggested retail prices. Such legislation, known as the Quality Stabilization bill, died in the last Session of Congress but is certain of revival next year. The measure would leave the retailer and the consumer free to choose any brand or brands of products, whether built up to a high standard of quality or down to a quality level to sell at any price which would please the retailer. Supporters believe the Quality Stabilization label would be more palatable to a price-conscious public than Fair Trade. Chances of enactment — dim.

Small Business Administration's Bad Debt Expense To Move Upward. The SBA, one of the newer "backdoor" spending plans (through the expediency of Treasury borrowings) has loaned direct, or through bank participation, approximately $966.6 million since Sep. 1953. Until January 1 of this year, bad debt costs ran slightly under one-half of 1%, but figures in the making indicate that small business failures since Jan. 1 will boost the ratio to around 1.2%. This compares unfavorably with other "backdoor agencies," such as Export-Import Bank which has had no bad debt costs (even operating at a profit) and Rural Electrification Administration which has written off less than $40,000 in around $3 billion of loans.

In connection with REA and the REA co-operatives, it is re-emphasized that the National Rural Electric Co-operative Association is readying legislative demands for greatly expanded Federal invasion of the electric productive field, even to the extent of Federal purchase of the larger private utilities now selling the co-ops at wholesale rates. NREAC will pitch its theme to the argument that private suppliers are "gouging" the poor, but healthy co-ops, at a rate of .78 cents per kilowatt hour, while tax-paid public sources are supplying at a rate of .53 cents per kwh. (outside taxation of course).

Cotton Textiles Hope For Increased Import Duties Next Year. Although President Eisenhower recently accepted findings of the Tariff Commission that restrictions on cotton textile imports are not warranted at this time, the industry — through cotton states Senators and House Members — hope to impose tariffs or import quotas early in the next Session of Congress. Domestic cotton textile industry, now down about 20% as result of imports — primarily from Japan — will turn to labor unions for support despite fact that AFL-CIO has voiced support of the Reciprocal Trade Agreement Acts.

Radio-TV Broadcasting Industry Temporarily "At Ease." — Failure of Congress to enact any restrictive legislation or legislation directly relating to programming (including "payola") has eased tensions for the broadcasters, most of whom are sincerely trying to clean up the mess as exposed by the House Subcommittee on Legislative Oversight, Chairmanned by Rep. Oren Harris (D., Ark.), also Chairman of House Committee on Interstate Commerce. It happens, however, that Senate Interstate Commerce Committee, headed by Sen. Warrn Magnuson (D., Wash.), plans extensive investigation and regulatory legislation early next year. The industry's "breathing spell" will be relatively short.

Exploration and Development..

OPENING UP THE CANADIAN WILDERNESS *in British Columbia*

By W. E. GREENING

The companies tapping and developing resources of the great forests, the mineral wealth, abundant water power, oil and gas finds . . . with adventure for the speculator.

THE great advances in transportation and communication are bringing a rush of prospectors large and small — following in the footsteps of well known companies—and more modest adventure capital to the Province of British Columbia on the Pacific Coast. This vast and thinly populated land, which is larger than several European countries combined, has recently been found to contain immense quantities of many types of natural resources —forests, minerals, gas and petroleum reserves and water power, among others. Much of the province remains a virgin and unexploited wilderness, and most of its population and industry are concentrated in small areas in the southwest close to the city of Vancouver and the International Boundary.

In the past, the economic development of this region of Canada has been retarded by formidable geographical barriers. The province is traversed from north to south by three great parallel mountain ranges: the Rockies, the Selkirks and the Coastal Range which extends along the Pacific Coast from Prince Rupert southward to Vancouver. These have served to isolate the various economic regions of the province from one another as well as from the rest of Canada. Of course, the construction of rail lines and highways through this mountain wilderness has always been a very costly job but the advent of the plane and the helicopter has reduced the isolation of outlying areas. During the past decade, many tracts in the central and northern

Leading Companies With Interests In British Columbia

	Price range of Stock:		Earnings Per share:
Pacific Petroleums			
1956	20⅛	12⅝	d.14
1957	37	16⅛	d.27
1958	21⅝	15⅝	d.55
1959	18⅜	12⅝	d.48
Crown-Zellerbach Canada "A" *			
1956	24	20	$1.07
1957	22	14	0.53
1958	22½	19¼	0.74
1959	25½	18½	1.05
MacMillan, Bloedel & Powell River: **			
1956			$2.60
1957			1.85
1958			1.81
1959			1.18

* Earnings shown are on the combined A and ordinary shares.
** Price range for company not available as MacMillan & Bloedel merged with Powell River Paper in 1960.
d—Deficit.

regions of the province have for the first time been adequately mapped and prospected and the natural wealth of this whole region of the Canadian West has been found to be far greater than had been theretofore realized.

The Great Timberlands

The forest resources of British Columbia are still enormous. Some of the largest untapped reserves of many soft wood species in the whole of Canada are located in the Coastal Range and in the central area of the province, and the forest products industries consequently play a leading role in its economy. This is the region of the giant trees such as the Douglas fir, the Sitka spruce and the Western hemlock. For many years the number one industry in the province, lumbering has, however, recently been confronted by serious marketing problems arising out of the decline of the demand for British Columbia lumber products in the United Kingdom and the United States and competition of Soviet and Scandinavian lumber in the former country. A flourishing plywood industry does exist in the province, but its sales are entirely confined to Canadian markets.

On the other hand, **the pulp and paper industry** has been making particularly rapid strides in this region of Canada during the past decade. Many new mills have been built and others are being projected. As in other provinces of Canada, the bulk of pulp and paper production is concentrated in newsprint manufacture for export to the United States. During 1959 newsprint production in British Columbia reached a record figure of $831,355,000 — one third higher than the 1958 output. The production of other types of pulp and paper products, such as fine paper and paperboard, registered a similar increase.

Recent Paper And Pulp Developments

The most significant development in the industry here during 1959 was the merger of two of the province's largest forest industry corporations—the **Powell River Co. Ltd.** and **MacMillan and Bloedel, Ltd.** This merger now controls two large newsprint mills, six sawmills, two plywood plants, a kraft paper and board mill, a bleached sulphite mill and facilities for the manufacture of a wide range of forest products of many types. Its major newsprint mill at Powell River on the Pacific Coast also has facilities for the manufacture of other pulp and paper products, including building papers, paperboard and unbleached sulphite. A second large mill at Port Albert on Vancouver Island manufactures newsprint, wrapping papers and paperboard. The company also plans to increase considerably the newsprint capacity of this mill during the coming year, and is already constructing a fine paper mill near Vancouver on the British Columbia mainland.

The **Crown Zellerbach Corporation** operates a very large mill at Ocean Falls on the Pacific Coast, south of Prince Rupert, which manufactures newsprint and a wide variety of paper products including sanitary papers, wrapping papers and paperboard. Its wholly owned subsidiary, **Elk Falls Ltd.,** has built a new mill at Campbell River on Vancouver Island which produces newsprint and a variety of pulp products. **Canadian Forest Products** has a pulp mill at Port Mellon on Vancouver Island and is building a board mill at New Westminster, near Vancouver.

Columbia Cellulose Company, Ltd., controlled by Celanese Corporation, entered the British Columbia field several years ago with the construction of a sulphite pulp mill near Prince Rupert. Today it has almost completed the construction of a large kraft pulp mill and sawmill at Castlegar, close to the International Boundary; this is the first mill of this type to be built in the central region of the province, away from the Pacific Coast. Other pulp mills in the Vancouver area include one of **British Columbia Forest Products Ltd.** at Crofton, and one of **Alaska Pine & Cellulose Ltd.,** a subsidiary of Rayonier, at Port Alice, both on Vancouver Island.

Other Schemes In Contemplation

Many additional projects for the construction of new mills in various parts of the province are being planned or discussed. MacMillan, Bloedel & Powell River Ltd., jointly with the **Aluminum Company of Canada,** is studying a proposal for a large pulp and paper mill near Kitimat, in Northern British Columbia, not far from Prince Rupert, to utilize some of the water power generated at the giant aluminum plant there. The possibility of building a pulp mill at Union Bay, on Vancouver Island is being considered by **Canadian Collieries Resources Ltd.** The **Northern Spruce Company** is contemplating the establishment of a pulp mill near Prince George, in the central region of the province, on the Prince Rupert line of the Canadian National Railway. Particularly large, untapped pulp wood reserves may be found in this area of the province. The same corporation, already one of the largest producers of logs, pulp, chips and shingles in the province, is also investigating the possible construction of a pulp mill near Gold River, on Vancouver Island.

The prosperity of this region of Canada depends largely on newsprint consumption in the United States. Prospects look favorable for the next two years at least, since United States newsprint consumption has been registering a steady upward curve ever since the end of 1958.

Oil And Gas Discoveries

A second very important source of natural wealth in British Columbia is the huge deposits of oil and natural gas located in the heretofore inaccessible northern wilderness. These finds started in the re-

gion of Fort St. John and Dawson Creek, on the Peace River. During the past two or three years Canadian and American petroleum companies have been spending many millions of dollars on exploration and geological work over a very extensive area here, and the results have been truly impressive to date. One of the largest natural gas fields yet discovered in Western Canada has been blocked out. The great sedimentary basin which covers much of the Province of Alberta has been found to extend northward through this region of British Columbia into the Northwest Territories and the Yukon. Both exploration and drilling have also been carried out north of the Fort St. John area along the tributaries of the Peace River and the eastern slopes of the Rockies into the remote Fort Nelson area on the Canada-Alaska Highway. The gas deposits located in the region between Fort St. John and Fort Nelson during the past three years have added four to five trillion cubic feet to the total gas reserves of the province.

● Among the important corporations engaging in exploration work for oil and natural gas in this area recently are **Imperial Oil** and **Pacific Petroleums Ltd.**, the latter an affiliate of the **Westcoast Transmission Company.** Pacific Petroleums has located very large gas reserves in the Jedney Bubbles area, about ninety miles northwest of Fort St. John, and a pipe line is now being built into this region. Seventeen new gas wells have already been brought into production there during the past year. The same company has also located large gas reserves in the Rocket Knife area, about one hundred and fifteen miles north of Fort St. John, and is doing much drilling work there.

Net Output of British Columbia
(millions of Canadian dollars)

	1954	1958	1959
Output Total	1380	1795	1887
Agriculture	74	82	83
Forestry	212	260	295
Fisheries	34	48	34
Mining	85	84	90
Electric Power	49	76	82
Manufacturing	652	775	828
Construction *	264	470	475

*—Including the Yukon and Northwest Territories.

● Very important gas finds have also been made jointly by Pacific and an **El Paso Natural Gas** subsidiary in the Kotcho Lake and the Petitot River areas, close to the Yukon-British Columbia boundary. Indications are that some of the wells here may eventually be among the largest in Western Canada, with enough capacity to supply both the **Trans-Canada Pipe Line** running eastward and the Westcoast Transmission Line reaching our own Pacific Coast states. Among other companies exploring actively in this region are **Home Oil Co., Ltd., Pan American Petroleum** (a Standard of Indiana subsidiary) and **Fargo Oils Ltd.** The search is also being extended northward into the Yukon and northeastward into the Great Slave Lake area.

● The significance of these new gas finds, in view of the rapidly increasing demand for natural gas in the states, can hardly be overemphasized. At the present time, Westcoast Transmission, which controls many of these reserves, has a pipeline in operation from Fort St. John southward to Vancouver and into the state of Washington. This line will be extended northward to tap the new Fort Nelson finds and perhaps eventually into the Yukon and the Northwest Territories. The capacity of the existing pipe line from the Peace River area to Vancouver will also be doubled in order to accommodate these new reserves. If developments in this area continue at their present rapid rate northern British Columbia will eventually become a major supplier of gas for the American Pacific Coast States.

● Important new oil reserves have also been located north and east of Fort St. John. This year, for the first time, crude oil will be moving by pipe line from the Peace River area to the Vancouver district. But here, as in other regions of western Canada, the oil industry (as distinct from natural gas) is confronted with serious marketing problems which are slowing down the pace of expansion and the piping of new wells. Recovery depends, of course, on improvement in the world-wide picture.

Urgent Need For Better Transportation

The remote location of most of the discoveries just described makes the provision of new railroads and highways in central and northern British Columbia a necessity if the economic potential of the province is to be realized. This requirement has been partially realized by the completion two years ago of the province-owned **Pacific Great Eastern Railway** between Vancouver and the Peace River area, one of the few major railroad projects to be carried out within recent years and a fascinating story in its own right.

● But an even more ambitious rail scheme has been projected for the opening up of the northern region of the province. **A Swedish and British financial syndicate** headed by the somewhat enigmatic **Swedish tycoon, Alex Wenner-Gren,** has won the backing of the British Columbia government for the construction of a new rail line over seven hundred miles long running northward from Prince George, where it would connect both with the **Canadian National** and the **Pacific Great Eastern,** along the eastern side of the Rockies to Watson Lake on the British Columbia-Yukon border. This group even visualizes the eventual extension of this line to Alaska. Influential business and political groups in Alaska naturally favor this project as it would give their state its first direct rail connection with the rest of the country. It has someimes been proposed that the new line be built upon novel principles as, for example, a monorail.

● This project has become, to be sure, a political football in British Columbia, and the date of its eventual completion even to the Yukon boundary is uncertain, although actual construction was recently initiated near Prince George. The same Swedish-British syndicate has plans for the large-scale development of natural *(Please turn to page 710)*

Favorable and Unfavorable Factors in STEEL INDUSTRY

— Looking to 1961

By HAROLD FISHER

- **Clarifies position of steel industry under evolving supply and demand — familiar markets — and aggressive competition with new products to meet impact of substitutes and inroads of foreign steel**
- **Tells why earnings can be maintained despite cut in operations — and the technological advances that make it possible — those which are still to be put in use — and what they can mean to earnings**
- **Tells which steels are in the best position — their earnings-dividend prospects looking to 1961**

THE steel industry has concluded a decade of exceptionally rapid progress in sales, earnings, dividends and in wages paid its workers.

But in spite of this remarkable performance, the industry's rate of growth has slowed down, at least for the time being. Pessimists say that the 50 per cent expansion in the last ten years has created about 25 per cent more capacity than is likely to be needed for the next several years, unless unexpected new uses and products are developed in the period ahead. At the moment, too, the industry is meeting considerably more competition, both at home and abroad, than was the case in previous postwar years—an intensified competition that has forced the steel producers to absorb labor cost increases granted under their recent labor contract.

This impressive list of problems has temporarily put the steel industry on the defensive. Looking back, it now appears that the industry's postwar progress may have been too rapid, and was keyed more to an inflationary trend than to the present rugged battle between industries and nations for markets. Militant union leadership, by calling a series of national steel strikes, has kept inflation going.

But in spite of its wounds, the steel industry is still a giant—strong in resources, in men, and in the will to do the job.

Steel Remains Basic

The type of dynamic growth which distinguished the steel industry between the end of World War II and 1957 has eased, and it will have to struggle more aggressively for its markets hereafter. Leaders of the industry have given reassuring evidence, however, that they are aware of the contest they are facing. Research appropriations have been greatly increased and a flexible, head-on battle, like that which the aluminum industry has been waging for years, has been initiated.

Steel will certainly remain the basic, versatile, low-cost material for thousands of products. Our economy still rests, in fact, upon a steel foundation—in transportation, in machinery of all kinds, in many forms of packaging, in heavy construction and other uses too numerous to mention. The potential market is vast and should continue to grow, if more gradually than before. While substitute uses for some steel products are creeping in, the industry feels confident that it will introduce twice as many new products in the next ten years as have appeared in any single decade in the past. In brief, the encouraging factors in the steel outlook must not be concealed behind its problems. These positive forces should grow more potent as the decade progresses.

The industry has just demonstrated that it no longer has to operate close to capacity to make fair earnings. In the current, particularly poor, quarter, with operations expected to average only about 55% of capacity, major producers should still show reasonably satisfactory earnings.

Technological Improvement

Steel prices are basically firm, despite current low operations. When it becomes necessary to raise prices to offset higher labor costs, it looks like the increase will be placed in effect—in spite of foreign competition. Furthermore, productivity is being improved steadily, as a result of heavy investments in oxygen-making plants for open hearth furnaces, improved methods of blast furnace operation, faster automatically controlled rolling mills and similar ventures. Because of these innovations, the productivity of a steel plant today is much higher than it was even five years ago. Thus, it is that by reducing their break-even point, they are able to make money at a lower operating rate.

The capital cost of these technological advances is high, of course. Over the next five years, the industry will be spending at the rate of $1 billion a year for plant modernization and improvement. The Big Ten of the industry will be able to finance this program primarily out of retained earnings and depreciation charges.

The industry's cash flow may also be stepped up next year through a liberalization of depreciation, to be accomplished either by a change in the Bureau of Internal Revenue regulations covering the useful life of capital assets, or through passage by Congress of a tax reform measure. The Presidential candidates of both parties favor liberalization of depreciation allowances, to accelerate capital investments and national growth, following the example of our leading foreign competitors.

Last year was a poor one for the steel industry. Yet a comparison of 1959 with 1949 shows that the industry in this decade doubled its sales, boosted net profit by 60 per cent, and raised dividend payments from $222 million to $553 million.

In spite of the poor third quarter, 1960 is likely to make a good showing for steel producers, with output totaling 105 to 108 million ingot tons, against only 87.4 million tons last year, speaking volumes for the record made under reduced operations.

Future Growth Projection

The leaders of the steel industry are now taking a much more restrained view of its future growth prospects than they did four years ago. At that time one prominent spokesman predicted that in 15 years, or by 1971, the economy would require an annual steel capacity of about 200 million ingot tons. This would mean an expansion of 70 million tons—or about 50%, the same rate of increase as took place in the decade of the 50's.

As contrasted with this prediction John F. Smith, Jr., president of Inland, stated last February that the industry looks for "ten years of growth in the 60's that will add 22 million tons of ingots to the nation's steelmaking capacity and call for an investment of $8 billion." This forecast indicates a capacity in 1970 of only 170 million tons, an increase of barely 15% for the entire decade, over present capacity of 148.5 million tons.

Investment Emphasis on Shorter Period

Such long-range forecasts are, of course, always extremely conjectural. The near term outlook—the next year or two—is much more important to the average investor. Within such a shorter period, cyclical fluctuations, as consumers accumulate inventories or decide to reduce them, may sometimes make the industry look rather sick when it is basically healthy, and ready to enter upon an upward phase of sales and operations. This description very likely fits the present period.

During the past year the industry has, to be sure, faced some severe difficulties. It had its longest strike—117 days. A classical inventory reduction period of unusual duration has been encountered. And some obstacles in the way of raising prices to cover increased costs loom in sight.

Improvement in Operating Rate Indicated

But overriding these depressing events certain more encouraging facts can be discerned.

The major low-cost producers, including **United States Steel, Jones & Laughlin, Republic, Armco** and **Inland** among others, have shown an abiltiy to cover their current dividends fairly well at an operating rate as low as 55%. Thus, steel has shed much of its old "prince-and-pauper" character, even though mill operations do remain vulnerable to the tides of inventory accumulation and reduction. And when the current reduction phase has been completed, activity will be able to move in only one direction—up. Perhaps the turn will only come slowly, but with steel consumption currently averaging around 70%

Statistical Position of Leading Steel Companies

	1st 6 Months: Net Sales 1959 (Millions)	Net Sales 1960 (Millions)	Net Profit Margin 1959 %	Net Profit Margin 1960 %	Net Per Share 1959	Net Per Share 1960	Full Year: Earned Per Share 1958	Earned Per Share 1959	Cash Earn. Per Share 1959	Indic. 1960 Div. Per Share *	Price Range 1959-60	Recent Price	Div. Yield %
ACME STEEL W.C. (mil.) '58–$38.2; '59–$39.0	$ 89.7	$ 82.6	5.0%	3.1%	$1.58	$ .87	$1.88	$1.17	$2.56	$1.20	34⅜- 23⅛	24	5.0%
ALLEG LUDLUM STEEL W.C. (mil.) '58–$62.7; '59–$77.9	163.0	135.4	7.5	4.0	3.20	1.43	1.52	2.92	4.65	2.00	60¾- 36	40	5.0
ARMCO STEEL W.C. (mil.) '58–$340.9; '59–$387.3	592.0	521.1	8.5	8.0	3.42	2.82	3.89	5.21	7.77	3.00	80½- 59⅛	65	4.6
BETHLEHEM STEEL W.C. (mil.) '58–$700.3; '59–$725.1	1,448.1	1,224.8	8.5	6.6	2.64	1.72	2.91	2.44	4.20	2.40	59⅛- 42¾	44	5.4
CARPENTER STEEL W.C. (mil.) '58–$15.8; '59–$18.8	46.1[1]	65.5[1]	4.6	8.6	1.17[1]	3.01[1]	.43[2]	2.50[2]	3.73[2]	1.60	62 - 36	44	3.6
COLO. FUEL & IRON W.C. (mil.) '58–$69.0; '59–$89.5	N.A.	N.A.	N.A.	N.A.	3.51	.56	.47	1.04	4.56	[3]	35⅝- 19¾	21	—
CONTINENTAL STEEL W.C. (mil.) '58–$13.6; '59–$16.5	30.3	25.9	9.2	8.9	2.70	2.24	3.77	5.48	6.81	2.25	47¼- 27⅞	36	6.2
COPPERWELD STEEL W.C. (mil.) '58–$21.6; '59–$30.2	74.5	68.9	4.6	3.2	3.08	1.92	1.76	5.00	7.66	2.00	55 - 35	38	5.2
CRUCIBLE STEEL W.C. (mil.) '58–$60.4; '59–$61.6	154.5	124.6	5.5	2.4	2.22	.72	1.13	1.50	3.96	.80	32¾- 18½	19	4.2
DETROIT STEEL W.C. (mil.) '58–$27.4; '59–$34.6	57.1	55.8	8.5	7.5	1.25	1.08	.31	3.90	5.41	1.12	27¼- 15¼	18	6.2
EASTERN STAINLESS STEEL W.C. (mil.) '58–$18.0; '59–$20.0	36.4	34.6	4.4	3.5	1.13	.85	1.77	2.18	3.00	.90	31⅞- 17⅜	18	5.0
GRANITE CITY STEEL W.C. (mil.) '58–$33.4; '59–$37.0	85.1	81.4	9.8	9.3	1.95	1.78	2.18	3.76	5.31	1.40	41⅝- 28	39	3.5

W.C.—Working capital.
*—Based on latest dividend reports.
N.A.—Not available.

[1]—9 months ended March 31.
[2]—Year ended June 30.
[3]—6% stock.

Acme Steel: Important capital improvements should boost earnings of this company which has unbroken dividend record back to 1901. **B4**

Allegheny-Ludlum Ssteel: End of inventory cutting programs should boost sales and earnings which were sharply reduced in second quarter. Active research program continues to develop new products. **B4**

Armco: Heavy investment program and introduction of new products should help company to continue to show above average growth. Normally operates above industry level. **A4**

Bethlehem: Earnings in first half were reduced by shipyard strike now ended. Heavy investment program continues. Second largest producer. **A4**

Carpenter Steel: Maker of special steels, company has shown better-than-industry earnings performance. Should show good gain this year **B1**

Colorado Fuel & Iron: Modernize plants, with new oxygen furnaces, but capital needs are large. No dividends since 1958, and plant requirements will postpone resumption. **C4**

Continental Steel: Semi-integrated wire company. Sales to Industry largely replacing farm market. Thus, less vulnerable to foreign competition. **B4**

Copperweld: New products, such as Alumoweld, boosted its sales and earnings sharply last year. Profits continuing at good level. **B4**

Crucible: Earnings have declined sharply from last year's level, due to customers' inventory cutting. First half disappointing, but comeback may be rapid. Sale of old Park Works site will aid cash position. **C4**

Detroit Steel: Unaffected by industry strike last year, company has found rougher going in second and third quarters. Investment program totaling $75 millon should reduce costs and aid profits. **C4**

Eastern Stainless: Has shown good stability in earnings, coupled with steady growth of sales in stainless field. **C4**

Granite City: Located in rapid growth market area of Midwest, company is expanding aggressively and shows above industry performance. **B4**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

of capacity some improvement in the rate of output over the next few months can be expected.

Other Favorable Factors

The steel export-import picture has also turned for the better. During the last three months, steel exports have exceeded imports by a wide margin. The import threat remains troublesome, but the industry has to some degree adjusted to it.

The recent steel contract assures labor peace in the industry until July 1, 1962. Productivity is being stepped up through new investments without opposition from the union. The high cost paid by workers in lost wages during the last strike is likely to make the United Steel Workers less militant in its approach to the next period of contract negotiations.

Price Increase Indicated

Some time during the life of the new contract, and probably not too long after it goes into effect on December 1, steel producers will raise prices to cover the profits squeeze. A low rate of production, such as 60% or 65% of capacity, will not rule out

Statistical Position of Leading Steel Companies—(Continued)

	1st 6 Months: Net Sales 1959 (Millions)	Net Sales 1960 (Millions)	Net Profit Margin 1959 %	Net Profit Margin 1960 %	Net Per Share 1959	Net Per Share 1960	Full Year: Earned Per Share 1958	Earned Per Share 1959	Cash Earn. Per Share 1959	Indic. 1960 Div. Per Share *	Price Range 1959-60	Recent Price	Div Yield %
INLAND STEEL .... W.C. (mil.) '58–$145.9; '59–$157.1	$432.0	$469.2	9.7%	7.2%	$2.43	$1.89	$2.77	$2.77	$4.65	$1.60	55 - 36½	41	3.9%
INTERLAKE IRON .... W.C. (mil.) '58–$39.1; '59–$44.8	70.3	51.8	7.9	6.6	2.49	1.54	1.26	3.25	5.83	1.60	34¼- 24⅜	25	6.4
JONES & LAUGHLIN STEEL .... W.C. (mil.) '58–$153.1; '59–$167.3	552.7	461.5	7.6	5.6	5.31	3.24	2.79	2.58	9.89	2.50	89¾- 59¾	65	3.8
LUKENS STEEL .... W.C. (mil.) '58–$19.5; '59–$24.6	48.1	54.7	6.3	5.9	3.22	3.44	4.38	4.39[1]	7.93[1]	1.00	104¾- 62⅛	66	1.5
NATIONAL STEEL .... W.C. (mil.) '58–$137.2; '59–$241.6	438.7	394.2	9.0	6.9	5.26	3.61	4.80	7.28	12.13	3.00	98½- 70	77	3.9
PITTSBURGH STEEL .... W.C. (ml.) '58–$30.8; '59–$28.3	113.7	87.8	3.5	2.7	2.14	1.10	d1.37	d1.45	4.46	—	28¾- 14	15	—
REPUBLIC STEEL .... W.C. (ml.) '58–$245.9; '59–$235.1	784.6	637.3	8.5	6.5	2.57	.84	3.96	3.43	5.64	3.00	81¾- 56⅛	62	4.8
SHARON STEEL .... W.C. (ml.) '58–$37.3; '59–$38.8	83.5	72.8	3.6	3.1	2.78	2.09	.20	1.94	5.37	1.00	49 - 28¾	31	3.2
U.S. STEEL .... W.C. (mil.) '59–$696.3; '59–$615.5	2,526.3	2,189.9	10.0	8.8	4.50	3.35	5.13	4.25	7.95	3.00	108⅞- 74⅛	82	3.6
UNIVERSAL-CYCLOPS STEEL .... U.S. (mil.) '59–$21.5; '59–$33.3	67.2	64.5	7.8	5.3	3.16	1.66	2.04	5.24	7.85	1.20[2]	53½- 32⅝	35	3.4
WHEELING STEEL .... W.C. (mil.) '59–$85.8; '59–$86.0	154.8	89.2	7.1	7.3	5.24	3.47	3.69	2.53	10.36	3.00	66⅞- 47	53	5.6
YOUNGST. SH. & TUBE .... W.C. (mil.) '59–$228.4; '59–$200.8	425.2	345.2	6.7	5.4	8.27	5.42	6.23	8.90	15.56	5.00	148 - 95½	98	5.1

W.C.—Working capital.
***—Based on latest dividend reports.**
d—Deficit.

1—Includes special credit of $1.67 a share.
2—Plus stock.

Inland: Company has shown strong growth trend, but seems slated for heavier competition in its area in next few years, with Behlehem, National and U. S. Steel investing heavily in Chicago area capacity. **A4**

Interlake Iron: Rapid growth of aluminum engine production by auto companies in next year will cut sales of iron. **B4**

Jones & Laughlin: Company has maintained operations this year above industry level, and has modernized its plant extensively. Should earn its dividends by a good margin. **B4**

Lukens: Near record sales in first quarter followed by inventory recession. Has strong ties with General Electric and will benefit by growth of power generating field. **B2**

National: Vigorous expansion program in Chicago and Detroit areas should strengthen company's position in rich market areas. Less affected than most other major producers by recurrent steel strikes. **A4**

Pittsburgh: Company obtained agreement with union in August calling for less rapid rises in wage rates than other companies now face. Should aid efficiency and competitive position. Has large capital needs to reduce high output costs. **C4**

Republic: Recent financing may be bar to higher dividends. But long range growth prospects remain excellent in alloy field. Third largest producer. **B4**

Sharon: Higher production costs have made company earnings fluctuate widely. Profit this year should exceed strike-affected 1959 total. **C1**

U.S. Steel: Highly efficient producer with large continuing cost-cutting program, company will show good gain in earnings this year. Largest producer, and most diversified. **A4**

Universal-Cyclops: Diversification and broad product line helps this company show above average performance. **B4**

Wheeling: Heavily commited to galvanized products, should benefit from growth in demand for such steels. Hit hard like other producers by drop in orders this Summer. **C4**

Youngstown Sheet & Tube: Dip in oil country goods has affected earnings. But should get a lift from natural gas pipeline business during next year. **B4**

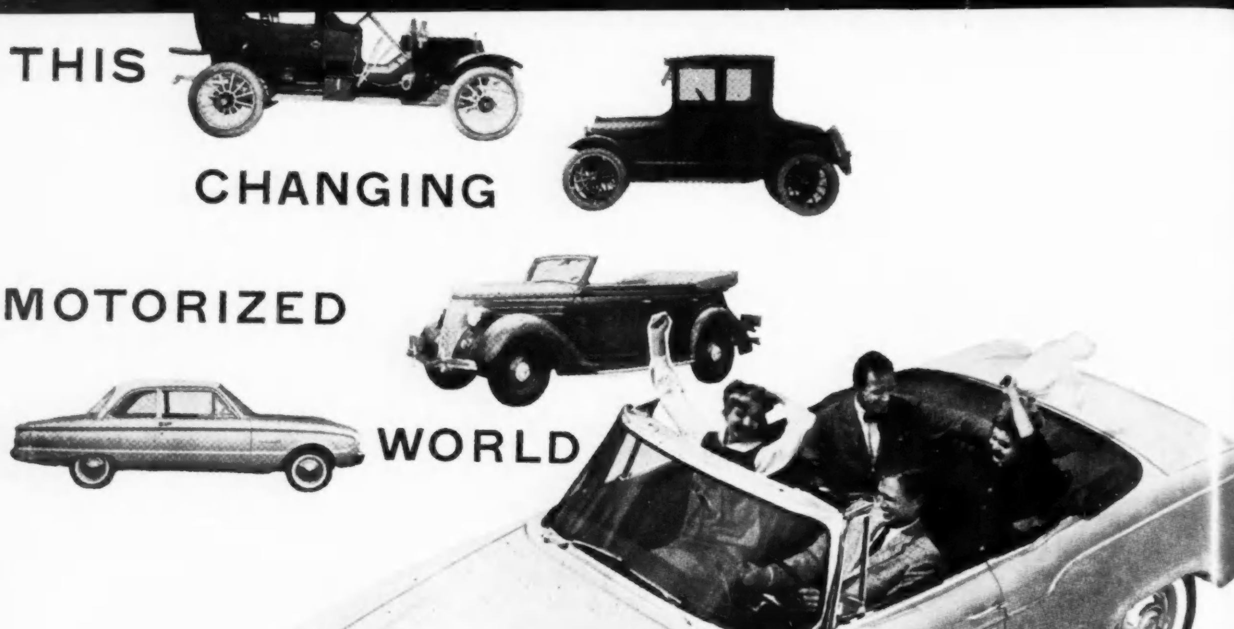
RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

the needed adjustments. On an earlier occasion, in August, 1958, the steel industry boosted prices $4 a ton, when operations were only in the 50%-60% range. Rising prices in other industries, including aluminum, which competes with steel, should also make this step a little easier. Foreign competition is a tougher nut, but even this is not likely to veto a price increase when it is needed. As long as the total of the country's steel imports remains within the present range of 3 to 4 million tons annually, American producers should be able to maintain an independent level.

Important Role of New Products

A flow of new products is also helping the steel industry to avoid a serious loss of its market. The new thin tin plate ranging down to 40 to 60 gauge, for example, should stave off the challange by the aluminum makers for a substantial part of the market for cans.

► Only a minor penetration has so far been effected by aluminum—mostly for citrus juice concentrates. Aluminum here probably will not amount to more than 100 to 200 *(Please turn to page 717)*



Realistic Appraisal of Outlook for AUTOMOBILE INDUSTRY

— and the Position of the Individual Companies under Intensified Competition

By ERIC W. JOHNSTONE

- **The shifts made by the "Big Three" in adjusting to domestic and foreign competition on the small car**
- **The new models in the works to offset sales decline in low-priced "three" — Chevrolet, Ford, Plymouth . . . what's happening to the medium-priced group**
- **The problems of the individual companies . . . how to meet the lower unit profits on compacts, a question of first importance — what they are doing about it . . . their earnings dividend outlook into 1961-62**

THE year of the "Big Change," as 1960 deserves to be called, introduced a new era for American automobile manufacturers. But it now appears that 1960 will be merely the first of several years during which the domestic industry must get its house in order if it expects to adjust itself to the expanding consumer demand for economy cars.

During this new era the American car producers, facing a continuing threat of keen foreign competition, will simultaneously have to absorb many cost increases flowing from labor contracts and other developments. At the same time they will have to price their small cars competitively with imports, and they will have to hold the line on prices in the medium and luxury car range to avoid too sharp a decline in sales of these more profitable, larger vehicles.

The effect of these trends will be a continuing profit squeeze on a unit basis, which may or may not be offset by a rise in sales volume. In short, the industry must be willing to sacrifice margins over

the near term, in order to meet the foreign challenge. If it continues to make these sacrifices—as it has already been doing during the past year—it will be laying a stronger foundation for increased prosperity in later years, after 1962 or 1963.

The industry is about to complete a model year in which unit sales have been running about 12 per cent ahead of last year's 5.5 million vehicles. Yet profits of four of the five major producers have declined. Only General Motors has thus far been able to buck the profits squeeze fairly successfully. And even in its case, the profit gain has not been proportionate with the rise in unit sales. To what extent the profit showing was helped by the Acceptance Corporation is yet to be determined.

Current Sales Upturn Not Likely To Benefit Earnings

As the industry approaches the introduction of its new 1961 line of cars and trucks, retail sales have taken a more favorable turn after showing an easier trend in June and July. The improvement is largely traceable to the shot-in-the-arm administered by the factories to dealers, in the form of special end-of-the-model-year discounts and incentives.

A further upturn in sales may occur when the broadened lines of 1961 model economy cars make their appearance in October. But this upturn may not be sustained. And it may merely obscure the basic problem of the industry—the abrupt shift in consumer taste prompted by the rapid rise in the cost of owning and operating an automobile. With average annual costs of car ownership now in excess of $1,000, consumers are trying to economize by buying smaller machines.

Hence, continuation of the present profits squeeze next year seems unavoidable. And it may become more severe. The industry, which was formerly able to induce the consumer to "trade up" by constantly introducing larger and more expensive cars is now in full retreat from this policy. The extent of the retreat will become clearer when the 1961 model cars are introduced in October.

Effect Of Compacts On Unit Profits

Last year the majors introduced four new compact economy cars, both to meet competition from European small cars, and to check the rapid growth of American Motors with its popular Rambler. At the same time, a broad hold-the-line price policy was adopted, despite higher costs of labor and some materials. These twin policies explain the industry's profit squeeze. And they will be even more in evidence during the 1961 model year.

Next year, as in 1960, four new compact cars wlil be introduced by the Big Three. These include the so-called "luxury" compacts of General Motors' medium-price divisions—Buick, Oldsmobile and Pontiac—and Chrysler's luxury compact, the Lancer, which will supplement its present Valiant. This means that eight Big Three compacts will be battling it out for their share of the market. The subnormal unit profit on compact cars which has already reduced earnings of major auto producers this year will do so again in 1961, on a deeper and more troublesome basis.

Increased Competition Among Standard-Size Cars

But the rapid spawning of the new compact cars represents only one phase of the profit squeeze. Another problem will be created by the introduction of more sharply competitive standard-size cars.

In today's highly competitive market the line of demarcation between the cars formerly known as the "low-priced three"—Chevrolet, Ford and Plymouth—and the medium-priced group is all but disappearing. This trend first became evident during the 1960 model year, when Chrysler's Dodge Division introduced its Dodge Dart—a standard-size car, priced fully competitively with the Chevrolet, Ford or Plymouth.

This move promptly paid off for Dodge in a sharp rise in sales, although largely at the expense of the same company's Plymouth. Many consumers were impressed by the appeal of a medium-priced label and bought the Dart in preference to Plymouth, Chrysler's low-priced standard bearer. Consequently, the "medium-priced" Dodge outsold Plymouth, normally the corporation's volume leader, by a wide margin in the first eight months of this year. Specifically, Dodge accounted for over 270,000 units, compared with only 160,000 for Plymouth in this period.

GM And Ford Will Follow Chrysler's Example

Such merchandising sleight-of-hand clearly resulted in an overall gain for Chrysler in a highly competitive season. Consequently, General Motors and Ford are going to take a leaf from Chrysler's book. Thus, General Motors' Pontiac Division, in addition to introducing its new compact Tempest, will have a low-priced standard-size car, competitive with Chevrolet. Ford's Mercury, too, will introduce a low-priced volume leader, competing with the Ford itself, as well as with Chevrolet and Plymouth. And even the Chrysler-Imperial Division, until now a producer of luxury and medium-priced cars, is now going to offer a low-priced leader of standard-size.

Explaining this trend a Big Three official said: *"One thing is sure, people aren't going to pay as much for cars, their upkeep or fuel as they have been. The motorist still wants luxury, but he wants it at lower cost."*

This epitomizes the basic problem facing the automobile companies.

A Growing Emphasis Upon "Basic Transportation"

For the consumer, squeezed by higher costs of services—education, health, recreation—is no longer able to devote as much of his paycheck to car purchase and upkeep as he did in the free-spending days of 1950-1955. Then he could throw vast discretionary buying power into automobiles, accessories and gasoline. But the share of consumer income going into the purchase and operation of automobiles has been steadily declining since 1955 and there is no indication where this will stop. As long as the consumer follows this pattern the automobile industry will be heading for lower profits. There is only a single course open to this higher competitive industry: it must give the consumer a larger choice of economy models, and hope that the trend toward austerity will burn itself out.

This does not mean that the American public has entirely lost its taste for large, glamorous, costly cars. The achievements of Cadillac, Pontiac, Oldsmovile, Thunderbird and Dodge, all of which produced more cars in the 1960 model year than they did in the preceding season, testifies otherwise. The automobile retains its place as a status symbol, even

Position of Leading Automobile and Truck Manufacturing Companies

	1st 6 Months: Net Sales 1959 (Millions)	Net Sales 1960 (Millions)	Net Profit Margin 1959 %	Net Profit Margin 1960 %	Net Per Share 1959	Net Per Share 1960	Full Year: Earned Per Share 1958	Earned Per Share 1959	Cash Earn. Per Share 1959	Indic. 1960 Div. Per Share *	Price Range 1959-60	Recent Price	Div. Yield %
AMERICAN MOTORS .... W.C. (mil.) '58–$79.9; '59–$110.2	$688.7[3]	$865.0[3]	7.2%	5.0%	$2.79[3]	$2.44[3]	$1.55[1]	$3.39[1]	$3.64[1]	$1.00	32¼- 8½	24	4.1%
CHRYSLER .... W.C. (mil.) '58–$383.4; '59–$275.6	1,531.4	1,751.5	3.7	1.3	6.65	2.69	d3.88	d.62	7.61	1.00	72⅝- 40	45	2.2
FORD MOTOR CO. .... W.C. (mil.) 58–$742.5; 59–$934.8	2,954.3	2,884.5	9.6	9.1	5.22	4.83	2.12	8.23	11.37	3.00	93½- 50¾	68	4.4
FRUEHAUF TRAILER .... W.C. (mil.) '58–$79.6 '59–$85.7	124.2	125.0	4.8	5.5	.90	1.01	d.87	1.88	2.30	1.20	30¾- 18¾	22	5.4
GENERAL MOTORS .... W.C. (mil.) '58–$2,098.7; '59–$2,566.1	6,511.7	7,108.7	9.0	8.6	2.08	2.15	2.21	3.05	4.56	2.00	58⅞- 42½	46	4.3
INT. HARVESTER .... W.C. (mil.) '58–$420.3; '59–$467.1	598.5[4]	693.8[4]	5.2	4.2	2.06[4]	1.88[4]	2.69[2]	5.10[2]	8.42[2]	2.40	57⅜- 39⅝	42	5.7
MACK TRUCKS .... W.C. (mil.) '58–$136.3; '59–$157.5	151.6	140.9	5.2	4.7	3.04	2.31	3.03	5.71	7.47	1.80	52⅜- 32¼	36	5.0
STUDE-PACKARD .... W.C. (mil.) '58–$44.8; '59–$73.6	209.8	178.0	5.7	1.8	1.87	.49	d2.08	4.36	5.02	—	29¼- 8⅛	10	—
WHITE MOTOR .... W.C. (mil.) '58–$89.6; '59–$99.5	174.2	161.3	3.9	3.2	3.33	2.41	3.48	6.94	8.28	2.00[5]	67¾- 33¾	46	4.3

W.C.—Working capital.
*—Based on latest dividend reports.
d—Deficit.
1—Year ended Sept. 30.
2—Year ended Oct. 31.
3—9 months ended June 30.
4—6 months ended April 30.
5—Plus stock.

American Motors: This compact car pioneer has restyled its lowest price American line, and should be able to more than hold its share of the 1961 market. **B-2**

Chrysler: Despite sharply higher sales in 1960, earnings have declined. Trend toward economy cars may squeeze profits again next year. **B-4**

Ford Motor: The successful introduction of Falcon and Comet economy cars has not paid off in total profits, while standard Ford line company mainstay has slipped badly. **A-4**

Fruehauf: Earnings outlook clouded by slowdown in new orders for truck trailers. Dividend cannot be viewed as well secured. **C-4**

General Motors: Sales performance of company's standard size line and Acceptance Corp. bolstered profits this year. Company must establish position in lower-profit compact car field with three new entries for 1961, and gain volume to hold profits. **A-4**

International Harvester: Earnings for first 9 months of fiscal year were off nearly 40 per cent. Truck business has been slowing down. Farm equipment sales may depend on favorable crops. **A-4**

Studebaker-Packard: Lower Sales and relatively fixed costs have cut earnings sharply. Large tax-loss carryover. Possible merger candidate. **C-4**

White Motor: Slowdown in truck sales around mid-year may affect second half earnings, although company has shown ability to compete successfully. **B-4**

though its claim in this field has been somewhat tarnished by the boom in economy cars. The great mass of buyers, however, are placing more emphasis on necessities than on frills, and they will buy a "basis transportation" car at a substantial saving, in preference to a costly status symbol.

Imports Temporarily Checked But . . .

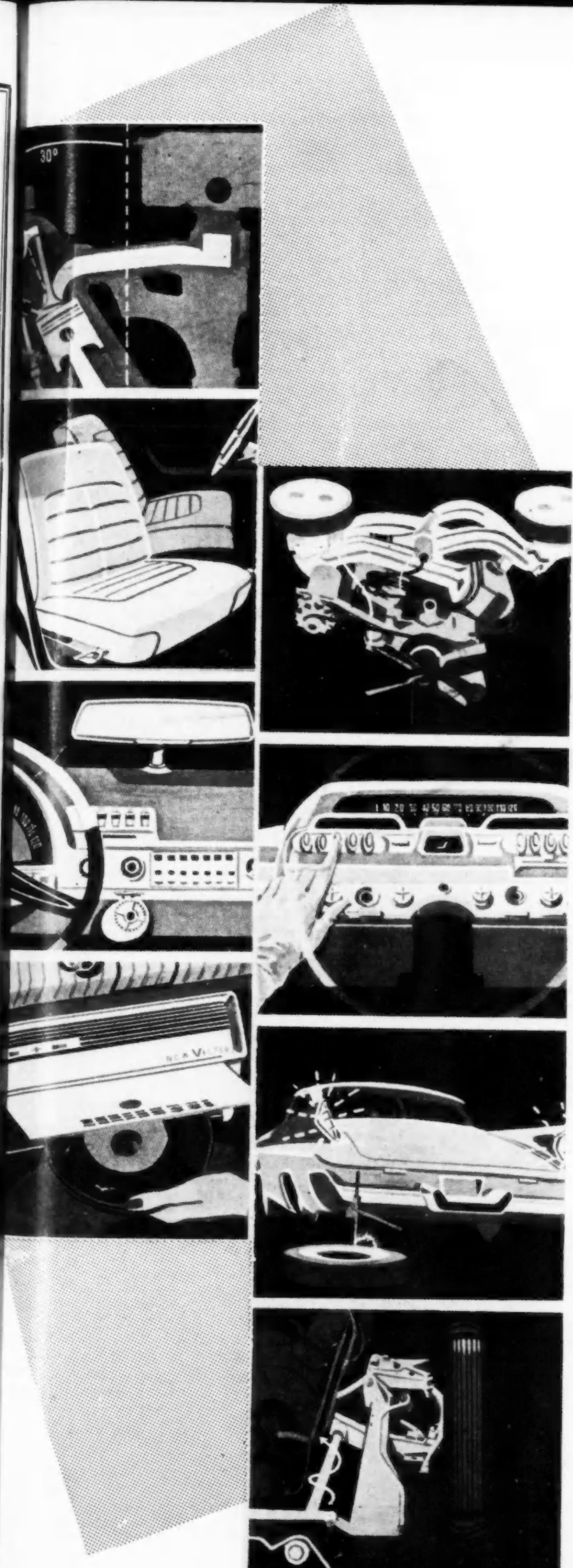
The shift in consumer buying habits is only one of the problems facing automobile producers. There are other serious hurdles that the American car producers will have to face, in 1961 and later years.

Foreign competition: Imports of cars, mostly economy models, rose to over 600,000 last year. This year, as a result of the introduction of more competitive American models, imports declined from their 10 per cent share of the market in 1959 to around 7 per cent. But the total of around 450,000 for 1960 is still a very respectable figure, and constitutes a potential threat for 1961. In fact, Volkswagen and Renault, the two leading European economy cars, continued to make progress in 1960. American producers have as yet no car ready to meet the challenge in the $1200-to-$1600 class in which Renault, Volkswagen and Fiat belong. Volkswagen, aiming for 150,000 cars in the present year, is planning to boost its total to no less than 182,000 next year, and the current demand suggests that this can be accomplished.

To meet this threat of a steady rise in foreign sales in the lowest price category, Ford is planning to introduce and import a German-built rear-engine car like the Volkswagen. Such a move would accelerate the rise in imports, particularly in the under-$1600 category, and could boost foreign sales here next year to well over 500,000.

1960 Sales Gain Would Violate Historical Pattern

The pattern of sales since 1930 shows that the auto industry has rarely been able to boost its sales successful for three years in a row. This may result from the adverse reaction of the public to excessive selling pressure as well as the more obvious rise in outstanding installment *(Please turn to page 706)*



AUTOMOBILE ACCESSORIES

Facing Varied Problems

By GEORGE E. WINES

► ***Appraising the position of the individual companies — their earnings-dividend outlook into 1961***

ALTHOUGH the gradual integration of parts production by auto companies has prompted most parts manufacturers to seek diversification in other fields, the auto industry still has a very direct effect on the overall operations of the average accessory firm. Moreover, in the great majority of cases diversification efforts have led into fields which are just as vulnerable to cyclical fluctuations as the auto industry. Thus, under changing business conditions auto parts producers must still expect rather wide swings in sales and earnings, particularly if their non-automotive activities are affected at the same time as their auto business. Nevertheless, diversification efforts into more promising fields should prove rewarding over the long term. Companies with *large replacement sales*, while still strongly identified with the automotive field, may offer greater stability during periods of reduced auto demand than even more diversified parts companies closely allied with the manufacturers. At present, however, few of the larger concerns derive a major portion of their sales from replacement parts.

Why Earnings Dipped

Poor second quarter results of most auto parts makers appear to reflect (1) the shift in the auto industry from standard size cars to the compact sales, (2) slackening business in other areas such as home building, agricultural equipment, appliances and heavy construction equipment and (3) increasing costs which cannot be offset by price hikes under the prevailing highly competitive conditions. Only a small minority of the parts makers were able to show improved results in the second quarter. Included in the latter category were **Champion Spark Plug, Electric Storage Battery** and **Thompson Ramo Wooldridge.** For the group as a whole, however, and despite generally well maintained dollar sales, profits in the second quarter were down roughly 10% from the first quarter and about 25% below the similar 1959 period. This was a poorer performance than that either of the auto

Statistical Data on Leading Automobile Parts and Accessories Companies

	1st 6 Months: Net Sales 1959 (Millions)	Net Sales 1960 (Millions)	Net Profit Margin 1959 %	Net Profit Margin 1960 %	Net Per Share 1959	Net Per Share 1960	Full Year: Earned Per Share 1958	Earned Per Share 1959	Cash Earn. Per Share 1959	Indic. 1960 Div. Per Share *	Price Range 1959-60	Recent Price	Div. Yield %
AMERICAN BOSCH ARMA CORP. W.C. (mil.) '58–$18.7; '59–$18.4	$ 64.3	$ 65.6	3.7%	1.5%	$1.26	$ .51	$2.50	$1.83	$2.88	$1.20[6]	39⅜- 18	20	6.0%
ARVIN INDUSTRIES W.C. (mil.) '58–$18.0; '59–$20.0	32.1	32.4	3.4	1.8	.97	.52	1.32	1.80	2.88	1.00	29½- 18¾	20	5.0
BENDIX AVIATION W.C. (mil.) '58–$133.5; '59–$141.8	504.3[3]	606.0[3]	3.5	2.8	3.48[3]	3.23[3]	4.18[1]	5.37[1]	7.56[1]	2.40[6]	89 - 57½	68	3.5
BORG-WARNER W.C. (mil.) '58–$190.3; '59–$201.5	327.8	323.0	5.5	4.7	2.04	1.68	2.34	4.36	6.08	2.00	48½- 34¼	37	5.4
BUDD CO. W.C. (mil.) '58–$62.7; '59–$62.5	169.7	195.0	5.2	3.3	2.00	1.43	.33	2.41	4.30	1.00	31¾- 16⅞	18	5.5
CHAMPION SPARK PLUG CO. W.C. (mil.) '58–$42.6; '59–$48.0	N.A.	N.A.	N.A.	N.A.	1.25	1.40	2.56	2.70	2.96	1.80	47¾- 34¼	47	3.7
CLEVITE CORP. W.C. (mil.) '58–$30.7; '59–$32.6	42.8	51.4	7.9	7.6	1.78	2.05	1.60	3.36	5.00	1.20	72½- 24¾	65	1.8
CONTINENTAL MOTORS W.C. (mil.) '58–$34.8; '59–$34.6	69.3[4]	73.2[4]	1.9	1.4	.40[4]	.32[4]	1.07	.80	1.56	.60	13¾- 8¾	9	6.6
DANA CORP. W.C. (mil.) '58–$41.7; '59–$51.7	165.4[5]	178.7[5]	8.6	7.7	2.72[5]	2.73[5]	1.93[2]	3.61[2]	4.62[2]	2.00	46½- 30⅛	35	5.7
EATON MFG. W.C. (mil.) '58–$44.2; '59–$54.2	151.7	146.3	6.6	5.0	2.11	1.53	1.73	3.60	5.04	1.90	46⅞- 28⅛	33	5.7
ELECTRIC AUTO-LITE W.C. (mil.) '58–$69.3; '59–$90.8	99.7	115.7	5.1	3.9	3.30	3.22	1.68	4.50	8.36	2.90	56¼- 36¼	50	5.8
ELECTRIC STORAGE BATTERY W.C. (mil.) '58–$45.6; '59–$48.9	66.9	69.8	3.6	3.7	1.44	1.56	2.38	3.63	5.57	2.00	73 - 38½	60	3.3
FEDERAL-MOGUL-BOWER BEAR. W.C. (mil.) '58–$36.9; '59–$42.0	64.5	61.9	10.2	8.0	1.36	1.03	1.77	2.52	3.13	1.40	40⅜- 23¾	26	5.3

W.C.—Working capital.
*—Based on latest dividend reports.
[1]—Year ended Sept. 30.
[2]—Year ended August 31.
[3]—9 months ended June 30.
[4]—6 months ended April 30.
[5]—9 months ended May 31.
[6]—Plus stock.

American Bosch Arma: Acquisitions broadening operations. Military business substantial with emphasis on electronics. Important defense items include inertial guidance systems for Atlas and Titan missiles and gun-fire control systems. **C4**

Arvin Industries: Producer of mufflers, exhaust pipes, tail pipes and other automotive parts. Almost half of sales derived from consumer items such as radios, phonographs, outdoor grills, ironing boards and heaters. **C4**

Bendix Corp.: About two-thirds of total volume derived from military work with broad participation in missiles and space technology. Automotive products include starting drives, fuel injection systems, brakes and power steering components. Large research efforts in electronics and other areas. **B2**

Borg-Warner: Company represents a broad cross-section of industry including such fields as appliance, air conditioning and building equipment, automotive components and oil well supplies. Reduced appliance business adversely affecting earnings. **B4**

Budd Co.: Manufactures car bodies, wheels and other automotive components. Increasing participation in the compact car field. **C4**

Champion Spark Plug: Well known product lines have wide application in many fields but steadily growing automotive replacement field accounts for the bulk of revenues. Exceptionally strong financial position. Earnings in 1960 may set new record for seventh consecutive year. **A1**

Clevite Corp.: Electronics business expanding significantly and contributes more than one third of total revenues. Bearings, bushings, and other items sold to auto industry and numerous other industries. **B2**

Continental Motors: Military business, although declining, accounts for almost half of sales. One of the largest independent producers of internal combustion engines. **C4**

Dana Corp.: Original equipment parts for autos, trucks and buses account for 75% of sales. Automotive replacement parts and products supplied to railroad, farm, aircraft and other equipment manufacturers represent the remainder. Excellent reputation for engineering ability and product development. **B2**

Eaton Mfg.: Leading supplier of truck axles and transmissions. Truck business accounts for almost half of sales; automobile parts about one forth. Effects of the steel strike and lower production schedules expected to keep earnings below 1959. **B4**

Electric Auto-Lite: Attempting to reduce dependence on Chrysler, company's major customer. Merger agreement signed with Hiller Aircraft, maker of helicopters. **B4**

Electric Storage Battery: Substantial replacement business helps maintain earnings during recessionary periods. Recent acquisitions broadening operations. Continuing development on fuel cell offers favorable long term implications. **B1**

Federal-Mogul-Bower Bearings: Automotive industry is company's principal source of revenues but substantial diversification is obtained through replacement business and from other industries. High profit margins derived from bearings business. **B4**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

Statistical Data on Leading Automobile Parts and Accessories Companies—(Continued)

	1st 6 Months: Net Sales 1959 (Millions)	Net Sales 1960 (Millions)	Net Profit Margin 1959 %	Net Profit Margin 1960 %	Net Per Share 1959	Net Per Share 1960	Full Year: Earned Per Share 1958	Earned Per Share 1959	Cash Earn. Per Share 1959	Indic. 1960 Div. Per Share *	Price Range 1959-60	Recent Price	Div. Yield %
HOUDAILLE INDUSTRIES W.C. (mil.) '58–$24.0; '59–$24.5	41.1	46.8	3.6	2.8	.93	.77	1.15	1.72	4.99	1.00	24 - 18	18	5.5
KELSEY-HAYES CO. W.C. (mil.) '58–$34.7; '59–$41.2	$156.3[3]	$131.9[3]	3.2%	1.8%	3.54[3]	$1.68[3]	$2.47[1]	$4.88[1]	$9.26[1]	$2.40	50¾- 32	38	6.3%
KING SEELEY W.C. (mil.) '58–$12.7; '59–$14.3	33.2[4]	36.4[4]	4.6	4.4	3.27[4]	3.50[4]	1.90[2]	4.78[2]	7.80[2]	2.50	47¾- 26½	39	6.4
LIBBEY-OWENS-FORD GLASS W.C. (mil.) '58–$65.2; '59–$69.0	N.A.	N.A.	N.A.	N.A.	3.16	2.43	2.05	5.13	6.58	2.90	77½- 47½	52	5.5
MIDLAND-ROSS CORP. W.C. (mil.) '58–$22.4; '59–$28.6	45.3	62.0	5.1	4.0	2.84	3.12	3.29	4.71	8.27	3.00	60½- 39½	56	5.3
MOTOR WHEEL W.C. (mil.) '58–$14.1; '59–$14.2	32.1	32.4	2.5	1.5	.98	.60	d.19	.95	2.78	1.00	20 - 14	15	6.6
ROCKWELL STANDARD CORP. W.C. (mil.) '58–$48.8; '59–$51.4	146.4	145.2	7.2	5.7	2.02	1.55	1.75	3.55	5.29	2.00	39⅛- 29⅛	32	6.2
SHELLER MFG. CORP. W.C. (mil.) '58–$10.5; '59–$10.8	22.4	26.1	3.8	3.6	.91	.99	d.32	1.30	2.36	1.00	22¾- 16	17	5.8
SMITH (A. O.) CORP. W.C. (mil.) '58–$63.5; '59–$67.9	202.8[4]	193.1[4]	4.1	2.3	4.08[4]	2.14[4]	3.47[2]	5.57[2]	8.76[2]	2.00	64 - 33¾	41	4.8
STEWART-WARNER W.C. (mil.) '58–$37.3; '59–$41.5	57.2	57.7	6.5	5.9	1.15	1.05	1.60	2.40	2.82	1.40	33½- 21¼	28	5.0
THOMPSON RAMO W. W.C. (mil.) '58–$66.2; '59–$67.3	199.5	219.1	2.4	2.3	1.53	1.55	2.86	3.02	6.92	1.40	70¼- 46⅞	59	2.3
TIMKEN ROLLER BEARING W.C. (mil.) '58–$85.0; '59–$92.5	N.A.	N.A.	N.A.	N.A.	2.93	2.89	2.10	5.60	6.84	2.40	69¾- 45⅛	59	4.0
YOUNG (L. A.) SPRING & WIRE W.C. (mil.) '58–$12.6; '59–$12.4	38.7[4]	42.8[4]	1.4	d3.2	1.37[4]	d3.37[4]	1.82[2]	2.01[2]	5.14[2]	—	49⅜- 22¼	23	—

W.C.—Working capital.
*—Based on latest dividend reports.
d—Deficit.

1—Year ended August 31.
2—Year ended July 31.

3—9 months ended May 31.
4—9 months ended April 30.

Houdaille Industries Only about one-third of total revenues now derived from industry. Acquisitions have substantially altered former operations. **C4**

Kelsey-Hayes Co.: Largest independent producer of wheels with Ford and General Motors principal customers. Aircraft parts account for 40% of sales. **B4**

King Seely: Acquisitions in recent years have reduced the proportion of sales derived from the auto industry to less than half of overall volume. Merger negotiations under way with American Thermos products. **B2**

Libbey-Owens-Ford Glass: Supplies glass for building and automotive industries with General Motors a major customer. Earnings are being penalized by introduction of compact cars. Very strong financial position. **A4**

Midland-Ross Corp.: Acquisitions have greatly broadened operations so that automotive business accounts for only 40% of sales. New Automotive accounts off-setting loss of Dodge and Plymouth car frame business. **C2**

Motor Wheel: Automotive wheels, hubs, brake drums and other auto parts items make up 70% of total sales. General Motors and Chrysler are important accounts. Management has instituted broad cost reduction program. **C4**

Rockwell-Standard: Axles, bumpers and brakes are major company products. General Motors, Ford, International Harvester and Chrysler account for 60% of total volume. **B4**

Sheller Mfg.: Mechanical rubber goods and steering wheels constitute the bulk of sales. Automotive industry accounts for 80% of total business. **B2**

Smith (A. O.): Operations well diversified. Supplies 40% of Chevrolet frame requirements. Fiscal 1960 results penalized by effects of steel strike and extraordinary expenses. **B4**

Stewart-Warner: Wide range of products including heating and air conditioning equipment, furniture trim and appliance hardware, lubricating equipment and electronics. Auto industry takes about 17% of total volume. Strong financial position. **B4**

Thompson Ramo Wooldridge: Important electronics business expanding rapidly. Automotive parts represent only one fourth of total sales. Parts and assemblies for manned aircraft account for one third of sales. **B2**

Timken Roller Bearing: Largest producer of tapered roller bearings. Automotive industry is principal customer but other outlets are also important. Earnings base being materially enlarged through expansion and acquisition. **A2**

Young Spring & Wire: Operations have been losing money, partly because of unusual expenses at new Chicago plant and steel strike dislocations. Dividend was omitted in February. **C4**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

industry or of industry in general. Moreover, companies with substantial diversification in other fields such as **Arvin Industries, Bendix Corp., Borg-Warner** and **Stewart Warner** experienced results no less adverse than those of companies having a much greater degree of dependence on the auto industry.

Effects of Popularity of Compact Cars

Probably the most influential factor responsible for the lower earnings of auto manufacturers and parts suppliers alike in the second quarter was the larger share of the automotive market gained by compact cars. Compact models accounted for only 12% of total auto production last year. In the first half of this year more than one fourth of all cars produced were in the compact category. Therefore, it is not surprising that second quarter profits of the "Big Three" auto makers **(General Motors, Chrysler** and **Ford)** averaged 16% below those of the similar 1959 period despite a 7% gain in unit car production. Increased demand for compact cars has not only brought about reduced profit margins for the manufacturers but it has also unpleasantly restricted operations of many parts suppliers.

Inasmuch as smaller cars require less glass, fewer accessories, and generally less expensive components, most parts companies must depend on a greater unit volume in order to realize the same amount of profit. A number of companies, including **Libbey-Owens-Ford Glass** and **Federal-Mogul-Bower Bearings,** have openly stated that their operations are being penalized by the lower profit margins on compact car parts, and the same condition must be true of many other companies.

Keys to Near Term Outlook

In addition to the six compact cars now on the market, four more will be introduced with the 1961 models. Estimates regarding the proportion of the new car market which will be represnted by compacts next year range from 35% to as high as 50%.

Dealer inventories are at an unusually high level and the degree of success achieved in liquidating these stocks will have considerable bearing on the successful introduction of 1961 models which are already coming off the production lines.

Inasmuch as many of the parts manufacturers were likewise adversely affected by the steel strike last year, profit comparisons over the balance of this year may not be particularly favorable for some companies. However, the combination of rising costs together with the smaller unit profits on parts for compact cars suggest the probability of lower earnings for most auto component companies for the full year 1960. And unless the new models stimulate wide-spread consumer acceptance, a continued declining profit trend seems likely in the first half of 1961. Companies with large replacement sales, substantial diversification in defense business, or in other more stable fields, should enjoy relatively better results.

Foreign Competition

Introduction of compact cars by American companies has temporarily restrained the rising tide of imported foreign cars, and sales of such cars in this country may decline to about 500,000 units from the more than 600,000 sold in 1959. Foreign competitors are, however, stepping up sales efforts and their prices have been cut. Some foreign inroads are also being made directly into the auto parts fields. Imported glass for autos has, for example, taken away some of the market from domestic glass producers.

Replacement Sales Expanding

More encouragingly, the ever increasing number of vehicles on the highway are providing steadily growing markets for replacement parts. Automotive replacement parts and accessory sales were in the area of $2.2 billion last year, up from $2.0 billion in 1958 and $1.7 billion in 1954. Motor vehicle registrations have risen from 49 million in 1950 to more than 71 million in 1959. This growth will help to mitigate the foreign competition.

New Developments

In April the California legislature passed a law requiring every new car registered in the state to be equipped with an anti-smog device within a year after the new California Motor Vehicle Pollution Control Board approves at least two such devices. Within three years almost all cars and trucks in the state must be so equipped. In California alone sales of these devices could amount to $700 million over a three year period, assuming an average price of $100 per unit. If these smog controllers are successful in curbing the problem they may well be required by other cities and states plagued by similar problems. Anti-smog devices could even become standard equipment on all new cars within a decade. Many companies are conducting development work in this field, with **Thompson Ramo Wooldridge** and **Arvin Industries** among the major participants.

Other companies are also working on interesting projects which could contribute significantly to sales and earnings over a period of time. One of the more research-minded organizations, **Electric Storage Battery,** has signed agreements with fourteen manufacturers of lift trucks to develop a fuel cell to power their vehicles. Fuel cells are potentially simple, low cost and efficient power sources, and have distinct advantages over storage batteries in that they need not be charged by introducing electricity from the outside. Problems involving weight and cost must still be solved but practical use of the fuel cell is a good possibility within three to five years. The company is also working with another firm toward the application of microporous plastic in products such as wearing apparel, filters, bandages, artificial organs and medicinal items.

Well Situated Companies

Despite the uncertain near-term outlook for most of the auto component firms, a number of well managed companies do possess strong finances, favorable profit margins and fair growth potential both within and outside the automobile field. **Champion Spark Plug** did not become publicly owned until 1958 and about 76% of the stock remains closely held. Reflecting the large replacement business, sales have shown uninterrupted growth, from $34 million in 1949 to $105 million last year. Per share earnings have more than kept pace with sales growth. Unlike most auto parts companies, Champion's earnings in the first half of 1960 were above those of a year ago and a new record, possibly in the area of $2.90 per share, seems attainable *(Please turn to page 710)*

ASSESSING THE FORTUNES OF THE RUBBER COMPANIES

--*Looking to 1961*

By ROBERT L. NEWTON

- **Has diversification changed the cyclical status of the industry — and to what extent?**
- **What long term growth factors seem likely to continue despite present competitive conditions**
- **Varying status for the individual companies — their earnings-dividend outlook**

THERE was a period of time when the outlook for tire and rubber companies was closely associated with the outlook for the automobile industry and, of course, prices of such commodities as natural rubber and cotton. The fortunes of the industry have changed markedly from those very cyclical times as evidenced by the results in 1958 (a recessionary year) and the prospects for 1960 (a period of high level activity).

In 1958 sales of original equipment tires (tires used in the assembly of new automobiles) declined about 28% while the earnings of the largest company in the industry, ***Goodyear,*** *actually increased slightly. Most other members of the industry showed only a very modest decline.*

For 1960 it is estimated that sales of original equipment tires will increase at least 15% over the 1959 level. Earnings of many of the companies in this industry are expected, however, to show only a modest increase over 1959 and in some cases fairly substantial declines. Quite obviously on a near term basis the outlook for the tire and rubber industry is not tied very closely to the anticipated production of automobiles.

Importance of Replacement Market

Among the major rubber companies tire activities account for between one-third and two-thirds of total company sales. In most cases the sale of replacement tires is at least twice as important as the sales derived from original equipment business. Because of the generally larger profit margins on replacement tire sales, this business is thought to account for an even larger portion of total profit. Sales of replacement tires in 1960 are estimated to increase about 3% over the 1959 level. This represents the normal growth of the industry and tends to increase each year in rough proportion with the

number of cars over two years of age in operation on the roads. In times of business weakness such as in 1958 there seems to have been some tendency on the part of the consumer to maintain present vehicles by the purchase of new replacement tires or retreads as the result of deferring purchase of new automobiles. This is believed to be an important stabilizing factor in the earnings of some tire companies.

In recent months there has been considerable discussion of lower tire prices and their effect on tire company earnings. Because of the wide variety of sizes and grades of automobile tires that are offered, it is usually very difficult for the consumer to compare tire prices from time to time or from brand to brand with any degree of confidence because the wide variation in tire quality enables the producer to advertise so-called promotional tires at very low prices.

Listed prices of replacement tires were reduced between 5 and 15% in July 1959 and increased 3 to 5% in February of this year. These price reductions represent attempts on the part of the major tire producers to reduce the growing importance of retread tires and private brand sales by large mail order and department store outlets. These price reductions have resulted in lower profit margins on replacement tire business.

The Impact of the Compact Car

While it is probably too early to say what the ultimate impact of the new compact cars will be on the replacement tire market, it seems unlikely that it will affect the long term growth patterns of the industry adversely. In fact, there is a strong likelihood that the very successful compact cars will expand the total market for automobiles, by increasing the number of two-car families and thus increase the total automobile population and ultimately the growth in replacement tire sales.

Diminishing Role of Natural Rubber

Since passenger car tires are now made almost entirely of synthetic rubber which is derived from petroleum sources, fluctuations in natural rubber prices are no longer a factor in this segment of the industry. Truck and bus tires, however, are still large consumers of natural rubber and thus the profit margins have been sharply depressed as the result of climbing natural rubber prices. With the rapidly growing world-wide demand for all forms of rubber and the great difficulty in expanding natural rubber plantations, except over a long period of time, it seems inevitable that new requirements for rubber must be supplied from synthetic sources.

Within the last two years two new types of rubber have been developed which for many applications are expected to match the performance of natural rubber. These products are known chemically as polyisoprene and cis-polybutadiene and under a variety of trade names by individual producers. Nearly all of the rubber companies have announced plans either to produce these newer types of synthetic rubber or to purchase such materials from independent suppliers. At present only pilot plant quantities are available but within the next two years a number of large commercial plants will enter the market. This should have the long term effect of stabilizing natural rubber prices at levels somewhat lower than those that now exist.

Rubber companies have benefited very much from the rapid growth in foreign rubber sales. It is estimated that the annual growth in rubber consumption outside the United States is approximately 8% per year as compared with about $3\frac{1}{2}\%$ in the U.S. Both **Goodyear** and **Firestone** derive about one-third of their earnings from tire and fabricated rubber operations outside the U.S. In view of the general improvement in living standards and broadening of purchasing power throughout the world, it seems very likely that this trend will continue.

Large-Scale Entry into Plastics Field

Although seldom realized by the general public rubber companies are now the largest fabricators of plastic products. Rubber itself in its many forms can be regarded as a plastic material for a great many applications. Certainly synthetic rubber facilities provide potentially very interesting starting points for a wide variety of plastic materials that are expected to be important in the future. Rubber companies originally entered the plastics field to supplement their lines of molded and fabricated rubber products such as floor-tile, mats, insulation and industrial products.

Goodrich, Firestone, Goodyear and **General Tire** have all become important manufacturers of vinyl chloride plastic. Some of these producers have also developed extensive fabrication facilities and they are thus more integrated and closer to the consumer than many of the chemical companies with which they compete.

This success in the plastics area has stimulated the consideration of many newer products. For example, **Firestone** plans to manufacture polypropylene. **U.S. Rubber** has been very successful with a broad line of plastic materials based on styrene-butadiene acrylonitrile copolymers. **General Tire, Goodrich** and **Dayco** have been leaders in the development of polyurethane foams as replacements and supplements for foam rubber products. This trend toward more plastic production by rubber companies seems very likely to continue in view of the basic fabricating position of the rubber companies.

Industrial Product Diversification

Another large segment of the rubber industry is represented by industrial products. These products range from the large continuous belts used in mining operations to the many special rubber products used in the manufacture of an automobile. Since the use of such products varies widely with the level of general business activity, it is this segment that often contributes to cyclical downturns in the industry. To the extent that plastic materials, particularly polyvinyl-chloride, are used in automobile production, this is also a source of cyclical variation. Since general business activity has tended to slow down in 1960 a leveling off of the demand for industrial rubber products may also be expected.

Goodyear Tire & Rubber Company is the largest manufacturer of tires and related products in the world. The company's very strong manufacturing position is supported by a very extensive system of dealers, company stores and filling station outlets. Goodyear's number one position in the replacement tire market, excellent management, and above average growth record has given it blue-chip status in

the minds of many as an investment. The company is currently constructing a new \$20 million plant to supply monomers (basic raw materials) for the manufacture of the two newer forms of synthetic rubber. Over a period of time this development should increase the company's profit margins from rubber operations due to a reduction in cost and the natural benefits of vertical integration.

About 60% of the company's business is estimated to come from tire operations. Other important activities include industrial rubber products, metal rims for a wide variety of vehicles, shoe products, packaging films, foam cushioning materials, plastic flooring and a number of important defense activities. Both sales and earnings are expected to show a modest increase in 1960 over the amounts reported in 1959.

The second largest tire fabricator, **Firestone Tire & Rubber,** also has a strong dealer system for replacement tire sales and a comparatively large chain of retail stores that merchandises a variety of automotive supplies and consumer items. While the company must purchase considerable supplies of natural rubber to meet the demands of its own truck and bus tire fabricating operations, the company has benefited materially from recent high natural rubber prices by virtue of its extensive plantations in Liberia.

The company has one of the more aggressive programs in the industry aimed at expanding its position in the plastics field, particularly in polypropylene and nylon. Other important Firestone products include a broad line of industrial rubber materials and polyvinyl chloride plastics. The company is the world's largest producer of steel rims for trucks, buses, tractors and many other vehicles. Textile products are also important with, of course, the primary emphasis on cord fabric for tires and other rubber products. The company has been one of the leading developers of plastic and rubber coated fabrics for such uses as air-inflated randomes, fuel storage tanks and many other applications. Firestone has perhaps the most integrated position in the industry since the company manufactures butadiene, a major ingredient in synthetic rubber, and because of its extensive plantation system for the production of natural rubber. This highly integrated position has had a favorable impact on profit margins.

Earnings for the fiscal year ending October 31, 1960 are expected to show an appreciable increase over that recorded for the year earlier (partly because of the nearly two months strike in 1959). Over the long term Firestone is expected to benefit materially from the rapidly growing foreign demand for rubber products.

Goodrich Prominent in Development of Plastics

B. F. Goodrich Company is the fourth largest manufacturer of tires and rubber goods and is frequently considered to be the leader in plastics development in the rubber industry. The company's approach to the plastics industry has been somewhat similar to that of several of the large chemical companies in that Goodrich has concentrated on the production of resins rather than finished fabricated products. The steady decline in vinyl prices in the past few years has reduced profit margins and tended to restrain earnings somewhat temporarily. Earlier in 1960 the company hoped that a stabilization of vinyl prices had been achieved but this was not realized, as a recent price reduction demonstrates.

It has been only through the introduction of newer, more profitable plastics that the chemical industry has been able to maintain margins in this highly competitive area. Price competition seems to be an inescapable fact of *(Please turn to page 708)*

Statistical Position of Leading Tire & Rubber Companies

	1st 6 Months						Full Year						
	Net Sales		Net Profit Margin		Net Per Share		Earned Per Share		Cash Earn. Per Share	Indic. 1960 Div. Per Share*	Price Range	Recent Price	Div. Yield %
	1959 (Millions)	1960 (Millions)	1959 %	1960 %	1959	1960	1958	1959	1959		1959-60		
DAYCO CORP. (†) W.C. (mil.) '58–\$22.7; '59–\$21.5	\$ 43.2[2]	\$ 47.4[2]	2.3%	1.2%	\$ .91[2]	\$ .45[2]	\$1.18[1]	\$2.09[1]	\$4.31[1]		36¾- 18¾	19	
FIRESTONE TIRE & RUBBER W.C. (mil.) '58–\$359.6; '59–\$394.5	568.1[2]	581.1[2]	5.2	5.2	1.13[2]	1.15[2]	2.08[1]	2.45[1]	3.98[1]	1.00	50⅜- 33⅞	36	2.7
GENERAL TIRE & RUBBER W.C. (mil.) '58–\$76.1; '59–\$112.7	305.3	350.7	4.5	3.2	2.63	2.01	2.06	4.84	7.64	1.00	86¾- 44⅛	58	1.7
GOODRICH B. F. W.C. (mil.) '58–\$252.3; '59–\$251.7	383.3	403.8	5.1	4.5	2.18	2.02	3.95	4.18	6.59	2.20	103¼- 56¼	61	3.6
GOODYEAR TIRE & RUB. W.C. (mil.) '58–\$477.1; '59–\$510.4	812.7	815.8	5.0	4.6	1.25	1.14	2.03	2.29	3.79	.90	51¼- 34	40	2.2
LEE RUBBER & TIRE W.C. (mil.) '58–\$19.5; '59–\$19.6	24.4	21.4	2.6	1.0	.76	.25	2.12[1]	1.78[1]	2.61[1]	1.20	30½- 17¼	18	6.6
SEIBERLING RUBBER W.C. (mil.) '58–\$11.1; '59–\$17.5	26.9	24.9	2.8	.4	1.13	.03	1.87	1.72	3.55	1.00	25⅜- 14¼	15	6.6
U. S. RUBBER W.C. (mil.) '58–\$295.7; '59–\$312.2	508.8	510.1	3.7	3.6	1.30	1.26	3.05	5.30	10.46	2.20	69⅜- 45¾	53	4.1

W.C.—Working capital.
*—Based on latest dividend reports.
†—Formerly Dayton Rubber Co.

1—Year ended Oct. 31.
2—6 months ended April 30.
3—Plus stock.

FOR PROFIT AND INCOME

September Markets

As was demonstrated this year, the "usual summer seasonal rise" in the market is a less reliable habit than many have supposed it to be, although a poor July performance was followed by improvement. In the record of past behavior, there is no seasonal tendency either way in September. Whether it is an up month, down month or a month of little change hinges, as is mostly so in any month, on basic factors, technical conditions and investment-speculative sentiment. A year ago September brought declines of 32.73 points in the Dow industrial average and 7.12 points in rails. It was the reverse in 1958 with gains of 33.46 points in industrials, 12.09 points in the rail average. The long-term record shows September gains for the industrial average in 30 years, losses in 33; for rails, advances in 27 years, declines in 36. Some important downtrends have started, or been accentuated, in September. Keep your fingers crossed.

Up and Down

If this is still a bull market, it is indeed a queer one. The industrial average recorded a top as far back as early January, the rails way back in July, 1959. If it is a bear market, it also has been "fooling around" somewhat longer than has been the general rule, industrials having met support above the March low on successive tests, utilities having gone ahead to new postwar highs. In any event, it is not the sustained uptrend market which investors enjoyed for so long. At best, it is a selective, up-and-down trading-swing market in which the nimble have a chance for profits but an equal, if not greater, risk of losses. If we get the hoped for mild autumn improvement in business it will not materially change the picture. The industrial boom is over and the exact peak, probably last January, does not make much difference. A prolonged high level of activity is usually followed by a slow-down, as at present. But, if recessionary tendencies become plain and gather momentum, whether before or after the year-end, stock prices will encounter new pressure.

Stock Groups

The following groups have been performing better than the mar-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
American Smelting & Refining	6 mos June 30	$2.25	$ .95
Consolidated Cigar Corp.	Quar. July 2	.65	.57
Idaho Power Co.	6 mos. June 30	1.20	.88
Cunningham Drug Stores	9 months June 30	2.41	2.23
Food Fair Stores	52 weeks April 30	2.11	1.95
Bell & Howell Co.	Quar. June 30	.35	.25
Cluett Peabody & Co.	6 mos. June 30	1.95	.96
Commonwealth Edison	6 mos. June 30	2.03	1.89
Crown Cork & Seal	Quar. June 30	.31	.65
Endicott Johnson Corp.	6 mos. May 27	.84	.13

ket for extended periods: Biscuit bakers, food brands, dairy products, finance companies and small-loan stocks, confectionery and soft drinks, department stores, motion pictures, tobaccos and utilities. Most of these are, of course, in the "defensive" class. The aircraft-missile-shipbuilding stocks seem to have made a basic upward turn, but in due course will need tangible support from gains in orders and earnings. The oils may have put bottom behind, but recovery potentials are limited by the industry's continuing problem of excessive supplies. Late-summer rallies in a number of groups are of questionable foundation, if one seeks reasons other than technical. We include in this list: aluminum, automobiles and auto parts, building materials, electrical equipment and appliances, machinery, metal fabricating, paper, rail equipments and steels.

Strong Issues

Stocks in technically-indicated upswings at this writing include: American Broadcasting-Paramount, American Chicle, Associated Dry Goods, Bath Iron Works, Boeing, California Packing, Commercial Credit, Corn Products, Delta Air Lines, Equitable Gas, Granite City Steel, Grumman, Heller, Household Finance, Mergenthaler, Metro-Goldwyn-Mayer, Philip Morris, Quaker Oats, Tennessee Corp., Trane Co., and Walgreen.

Soft

A few of the many laggards are: Alco Products, Aluminum Co., Foote Mineral, American Enka, Ampex, Beaunit Mills, Bridgeport Brass, Bullard, Carter Products, Caterpillar Tractor, Clark Equipment, Continental Can, Fenestra, Filtrol, General Bronze, Ingersoll-Rand, International Harvester, Lone Star Cement, Masonite, Montgomery Ward, Motor Wheel, National Lead, St. Regis Paper, Scovill Mfg., and Stauffer Chemical.

Municipal Bonds

Money-rate trends govern basic market movement of tax-free municipal bonds, as is so of bonds generally. But we are in a temporary period when both new offerings and the total of unsold issues in the hands of distributing syndicates are relatively low. So the near-term market outlook is better for municipals than for Treasury bonds or corporate issues. On average, they have risen about 8% in prices from this year's low, up to this writing, which is more than the industrial stock list has done. A further rise is likely for some time ahead, for money rates can be expected to fall additionally. Conceivable conditions that would justify a reversal of official credit-easing policy—active business and renewed inflationary pressures—seem somewhat distant. The tax-free feature appeals most to well-to-do investors, but others should "take a look" and do some figuring. Even in the \$6,000-\$8,000 bracket a single person has to get 5% return in taxable security income to equal a 3.5% municipal bond yield. Average yield of the Dow industrial stocks is around 3.4% at this time, average net yield on municipal bonds around 3.6%.

Preferred Stocks

The published daily lists of new highs and lows in stocks have recently been showing many more highs than lows. That is taken as a favorable "sign," but it has little or no value as an indicator of market behavior any significant distance ahead. Like the current weather, it can change. Moreover, the statistical totals of highs and lows have recently been "loaded" on the favorable side because they include preferred stocks, which have been trending broadly upward for the same money-rate reasons dominating the bond market. There are many more common than preferred stocks listed on the Big Board, but in some recent sessions preferred stocks have accounted for a third to a half of total new highs in stocks. New highs in commons have increased relative to lows, as is always so in any rally. They remain very far under the daily totals of new highs seen around the start of the year and in typical sessions in 1959 and 1958. Good-grade preferred stocks rate a place in some portfolios. They are much more stable than common stocks, less so than bonds in the upper-quality ratings. Average yield is around 4.7%. For a few examples, it is currently over 4.4% for American Can \$1.75 preferred, nearly 4.5% for National Biscuit \$7 and over 4.6% for General Motors \$5 pfd.

Cigars

The cigar stocks lagged for many years, with earnings static or shrinking, but the group widely outgained the market on the 1958-1959 rise. Following a subsequent reaction into April of this year, it has again fared better than the market. Sales and profits have been boosted by aggressive advertising of popular-priced brands. Today there are many more cigar smokers than formerly. The two leaders, whose stocks are the only ones worth considering are Consolidated Cigar, largest maker, and General Cigar, both with record volume and profits. Consolidated could earn close to \$3.00 a share this year, against 1959's improved \$2.75 (adjusted for a 2-for-1 split). Dividends (\$1.00 regular rate) will be not less than \$1.25 with the year-end extra. At 31, close to 1959 high of 32¼, the stock yields about 4% and could work modestly higher.

General Cigar

This company should net around \$2.20 to \$2.30 a share this year, against 1959's \$1.87 (excluding \$0.66 in non-recurring gain). Dividends are at an \$0.80 rate.

(Please turn to page 720)

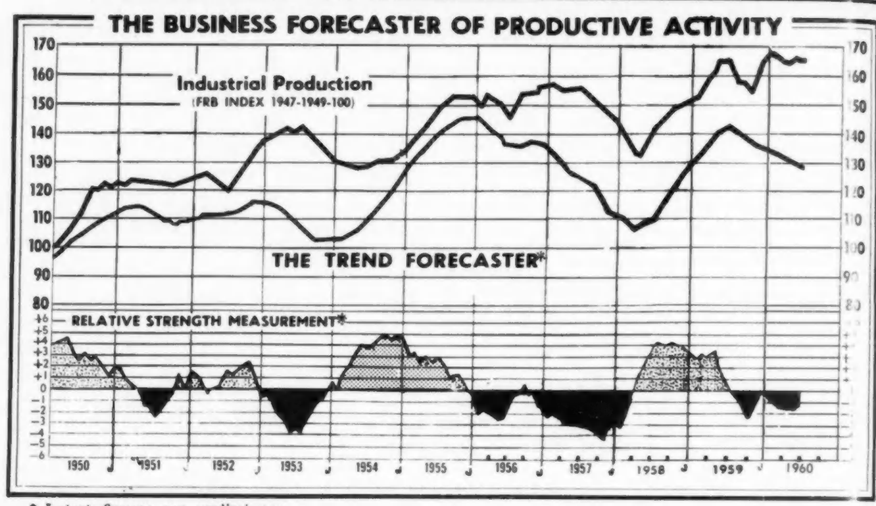
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Allied Laboratories	6 mos. June 30	$ .86	$1.47
American Brake Shoe	Quar. June 30	1.29	1.96
Babcok & Wilcox	Quar. June 30	1.49	1.65
Baldwin-Lima-Hamilton	6 mos. June 30	.26	.63
Chance Vought Aircraft	6 mos. June 30	1.29	2.60
Copper Range Co.	Quar. June 30	.31	.73
Joy Manufacturing Co.	Quar. June 30	.53	.76
Bliss (E. W.) Co.	Quar. June 30	.18	.43
Sharon Steel Corp.	6 mos. June 30	2.09	2.78
Fibreboard Paper Products	Quar. June 30	.50	.94

the Business A

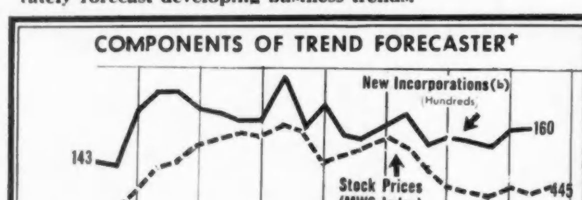
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

The condition of the selected indicators of business activity remains highly mixed, but with a persistent note of weakness. In the most recent period for which figures are available, new orders and housing starts appear to be subsiding, while hours worked and prices are about stable. Business failures and stock prices have behaved erratically while new incorporations and nonresidential construction contract awards have improved recently.

The Relative Strength Measurement has continued in negative territory, where it has been since the last half of 1958, and its pattern of behavior now bears some resemblance to that of the first half of 1957. The Measurement has not given a clear signal of recession, but neither does it point to any substantial advance in general business in the remainder of 1960. The Trend Forecaster itself, which cumulates the movement of the Relative Strength Measurement, has been declining for a considerable period, and is beginning to suggest that the present level of activity is not sustainable for long unless new stimuli appear.

Analyst

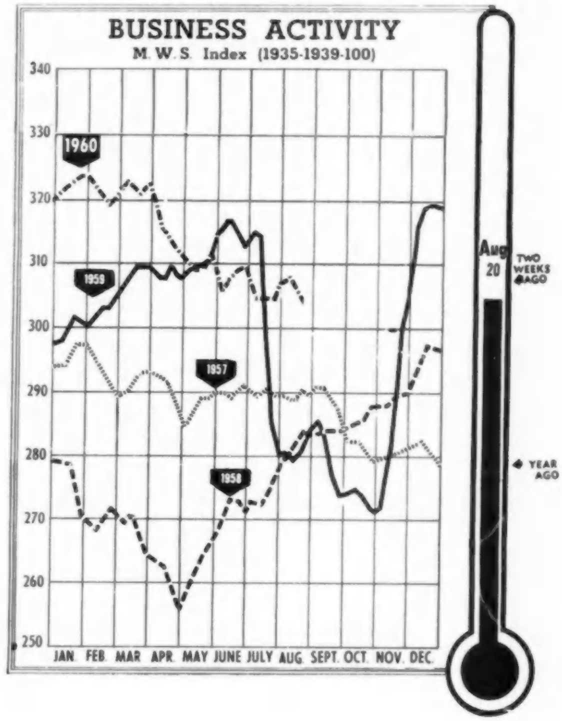
CONCLUSIONS IN BRIEF

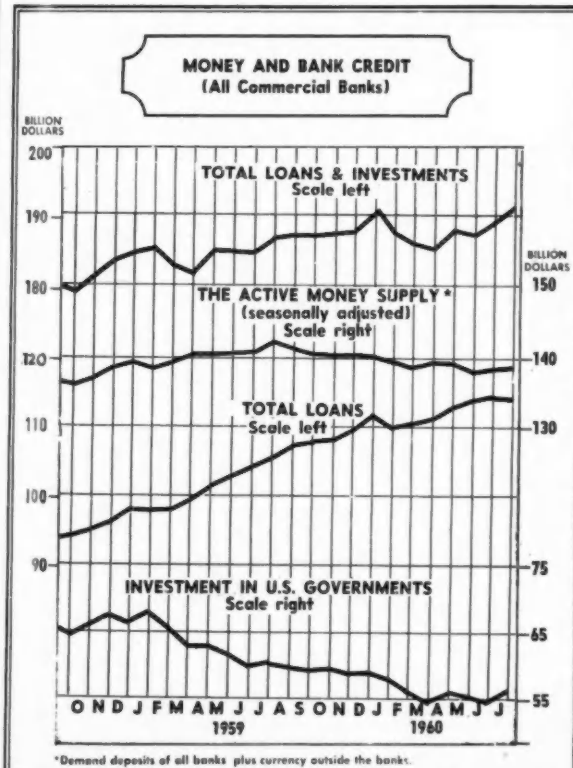
PRODUCTION — still without a trend. Declining output of primary metals has been offset by strength in soft goods, notably chemicals and textiles. For the near term, look for a slow decline in aggregate operating rates, with some weakness appearing in machinery industries.

TRADE — lower demand now in evidence for big-ticket items, offset by continuing strength in soft goods. Autos biggest weak spot. Outlook: not much improvement from the depressed summer level in next two-to-three months.

MONEY & CREDIT — Banking system still growing gradually more liquid, and rates falling, under pressure from Federal Reserve. Further easing in rates, including long-term rates, is in prospect for the fall — a slow decline, not a break.

COMMODITIES — still no tend. Farm commodities have been softening seasonally since their peak in April; industrial commodities have been about stable. Finished goods prices are stable to weak. Outlook: slow further weakening in general price structure over next three months.





*Demand deposits of all banks plus currency outside the banks.

AMONG the numerous statistical puzzles presented to the business analyst as the Fall season begins is the state of the residential building market.

Since the middle of 1959, the housing starts rate has been in an erratic decline. Following a particularly sharp drop in March, the starts rate recovered smartly in April and May, which suggested that the March drop could safely be attributed to construction delays resulting from weather conditions. But in June the improvement ceased, and in July the rate plummeted again. A key question on the outlook for the next several quarters is whether this weakness in the immense residential building industry is a temporary result of tight money, or a more intractable illness on the demand side of the housing market.

In appraising this question, it might be mentioned that throughout the postwar years, housing starts have exhibited a very agreeable responsiveness to falling interest rates. As the general rate structure declines, the relatively low yields available on long-term residential mortgages grow more attractive, while the demand for funds for shorter-term, higher-yield purposes tends to subside. Result: a substantial redirection of the flow of funds into mortgages, and a recovery in the starts rate. This mechanism has, in the past, been somewhat amplified by the relatively large proportion of starts underwritten by the FHA-VA programs of the

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	July	166	166	163
Durable Goods Mfr.	1947-'9-100	July	171	171	171
Nondurable Goods Mfr.	1947-'9-100	July	163	162	159
Mining	1947-'9-100	July	128	126	123
RETAIL SALES*	$ Billions	July	18.3	18.6	18.3
Durable Goods	$ Billions	July	5.8	6.0	6.2
Nondurable Goods	$ Billions	July	12.5	12.6	12.1
Dep't Store Sales	1947-'9-100	July	149	145	148
MANUFACTURERS'					
New Orders—Total*	$ Billions	June	30.1	30.5	31.4
Durable Goods	$ Billions	June	14.2	14.7	16.1
Nondurable Goods	$ Billions	June	15.9	15.8	15.3
Shipments*	$ Billions	June	30.8	31.0	31.2
Durable Goods	$ Billions	June	14.9	15.1	15.8
Nondurable Goods	$ Billions	June	15.9	15.9	15.5
BUSINESS INVENTORIES, END. MO.*	$ Billions	June	93.4	93.2	89.3
Manufacturers'	$ Billions	June	55.2	55.0	52.4
Wholesalers'	$ Billions	June	13.0	13.1	12.4
Retailers'	$ Billions	June	25.3	25.2	24.8
Dept. Store Stocks	1947-'9-100	June	164	161	155
CONSTRUCTION TOTAL—t	$ Billions	July	55.5	55.6	57.8
Private	$ Billions	July	40.1	39.8	41.3
Residential	$ Billions	July	23.1	23.0	25.4
All Other	$ Billions	July	17.0	16.8	15.9
Housing Starts*—a	Thousands	July	1173	1298	1342
Contract Awards, Residential—b	$ Millions	July	1329	1483	1690
All Other—b	$ Millions	July	2268	1989	1967
EMPLOYMENT					
Total Civilian	Millions	July	68.7	68.7	67.6
Non-farm*	Millions	July	53.4	53.4	52.6
Government*	Millions	July	8.4	8.4	8.1
Trade*	Millions	July	11.7	11.7	11.5
Factory*	Millions	July	12.3	12.4	12.6
Hours Worked	Hours	July	39.8	40.0	40.2
Hourly Earnings	Dollars	July	2.29	2.29	2.23
Weekly Earnings	Dollars	July	91.14	91.60	89.65
PERSONAL INCOME*	$ Billions	July	407	406	387
Wages & Salaries	$ Billions	July	275	274	262
Proprietors' Incomes	$ Billions	July	61	61	60
Interest & Dividends	$ Billions	July	41	41	37
Transfer Payments	$ Billions	July	29	29	27
Farm Income	$ Billions	July	16	17	16
CONSUMER PRICES	1947-'9-100	June	126.5	126.3	124.5
Food	1947-'9-100	June	120.3	119.7	118.9
Clothing	1947-'9-100	June	108.9	108.9	107.3
Housing	1947-'9-100	June	131.3	131.2	118.9
MONEY & CREDIT					
All Demand Deposits*	$ Billions	July	110.3	110.1	112.9
Bank Debits*—g	$ Billions	July	92.8	99.1	98.7
Business Loans Outstanding—c	$ Billions	July	32.0	32.6	29.5
Instalment Credit Extended*	$ Billions	June	4.2	4.2	4.0
Instalment Credit Repaid*	$ Billions	June	3.9	3.9	3.5
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	July	3.1	11.1	3.2
Budget Expenditures	$ Billions	July	6.2	6.9	6.5
Defense Expenditures	$ Billions	July	3.8	4.0	4.1
Surplus (Def) cum from 7/1	$ Billions	July	(3.0)	1.1	(3.3)

PRESENT POSITION AND OUTLOOK

federal government; such guaranteed mortgages are subject to a fixed maximum interest rate. As yields on other investments rise above this level the supply of funds for such mortgages dries up; conversely, as interest rates fall below this level, the rate of starts with FHA-VA commitments tends suddenly to rise.

A fundamental condition for the reappearance of this mechanism still seems to be present—namely, a large supply of qualified applicants for government-guaranteed mortgages. However, other aspects of the demand side of the housing market now seem less favorable than in the past. For example, the vacancy rate in rental units is now impressively higher than in previous periods of falling interest rates. This fact takes on added significance in the light of recent changes in the composition of housing starts, which are now much more heavily in the apartment-house rental sector than they were a few years ago. According to specialists in the housing market, there is some evidence that the physical demand for housing is now considerably nearer saturation than was true before the 1.4 million dwelling units were completed in 1959.

The test of the housing market's response to interest rates is now clearly shaping up. Major buyers of mortgages are gradually finding their available funds increasing, and the interest rate on long-term funds is now nearing the point where a response from the market should be expected. Of all the many figures worth watching in the last half of this year, the "starts rate" ranks near the top for significance.

* * *

AUTOMOBILES AGAIN — this perennially interesting industry is again in one of its annual crisis phases. At the moment, the production rate is passing through its model-changeover trough, and dealers' stocks are declining. However, the rate of decline is a little slower than might have been hoped for, owing to a sudden and largely inexplicable drop in the sales rate.

Compounding the problems of automobile dealers are a falling

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1960 Quarter II	1959 Quarter I	Quarter IV	Quarter II
GROSS NATIONAL PRODUCT	505.0	501.3	486.4	487.9
Personal Consumption	329.0	323.3	319.6	313.6
Private Domestic Invest.	75.5	79.3	70.8	78.9
Net Exports	2.0	1.2	— 0.4	— 2.2
Government Purchases	98.6	97.5	96.4	97.7
Federal	51.7	51.8	52.5	53.7
State & Local	46.9	45.7	43.9	44.0
PERSONAL INCOME	404.2	396.2	389.0	384.5
Tax & Nontax Payments	49.9	49.2	46.5	46.2
Disposable Income	354.3	347.0	342.4	338.3
Consumption Expenditures	328.5	323.3	319.6	313.6
Personal Saving—d	25.8	23.7	22.8	24.8
CORPORATE PRE-TAX PROFITS		48.8	44.8	51.7
Corporate Taxes		23.8	22.1	25.5
Corporate Net Profit		25.0	22.7	26.2
Dividend Payments	13.9	13.9	13.8	13.2
Retained Earnings		11.1	8.9	12.9
PLANT & EQUIPMENT OUTLAYS	37.0	35.2	33.6	32.5

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Aug. 20	304.2	306.0	281.2
MWS Index—Per capita*	1935-'9-100	Aug. 20	219.7	221.0	206.3
Steel Production % cap.	% of Capality	Aug. 27	54.5	54.7	11.7
Auto and Truck Production	Thousands	Aug. 27	56	64	36
Paperboard Production	Thousand Tons	Aug. 20	315	314	321
Paperboard New Orders	Thousand Tons	Aug. 20	283	304	299
Electric Power Output*	1947-'49-100	Aug. 20	264.6	267.9	250.3
Freight Carloadings	Thousand Cars	Aug. 20	596	600	543
Engineerings Constr. Awards	$ Millions	Aug. 25	406	455	293
Department Store Sales	1947-'9-100	Aug. 20	139	131	132
Demand Deposits—c	$ Billions	Aug. 17	58.2	59.0	60.0
Business Failures—s	Number	Aug. 17	279	308	263

PRESENT POSITION AND OUTLOOK

used-car price, which increases the cost of new cars to buyers who trade, and a record level of instalment debt outstanding. Unless the automobile sales rate picks up significantly in September, the model cleanup will be something less than satisfactory, and new-car production schedules may be somewhat retarded, *with*, of course, repercussions in the steel, rubber and other supplying industries.

* * *

STEEL — as late as the end of August, the long-awaited pick-up in steel ordering rates has not yet appeared. The rate at which September order books were being filled suggested that no very pronounced improvement in the steel operating rate could now be expected until October. Steel inventories are clearly draining out of the durables manufacturing sector, and one source estimates that inventories held by consuming industries will soon fall to the 14-million-ton level considered minimal for present operating needs. However, actual inventories are anybody's guess and members of the industry are frankly surprised at the prolonged lull in steel demand.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun Bradstreet. (t)—Seasonally adjusted, annual rate. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960 High	1960 Low	1960 Aug. 19	1960 Aug. 26
Composite Average	482.5	429.5	447.9	451.4
4 Agricultural Implements	424.3	246.4	411.4	402.7
3 Air Cond. ('53 Cl.—100)	130.1	110.9	118.6	119.8
9 Aircraft ('27 Cl.—100)	1116.1	861.9	1094.0	1105.0
7 Airlines ('27 Cl.—100)	1044.6	769.7	846.7	879.7
4 Aluminum ('53 Cl.—100)	521.3	385.8	406.6	411.8
5 Amusements	286.7	209.3	284.4	286.7H
5 Automobile Accessories	531.1	438.9	455.2	460.6
5 Automobiles	157.0	101.6	106.2	109.3
3 Baking ('26 Cl.—100)	39.1	34.9	36.8	37.9
4 Business Machines	1422.6	1172.3	1330.4	1356.7
6 Chemicals	809.6	689.4	777.6	761.5
4 Coal Mining	36.0	28.6	29.7	28.6
4 Communications	229.9	209.1	220.6	222.9
9 Construction	169.2	153.7	155.4	158.9
5 Container	1064.7	887.2	908.1	918.5
5 Copper Mining	347.6	298.4	337.7	347.6H
2 Dairy Products	185.4	146.8	179.2	182.3
5 Department Stores	156.7	135.2	156.7	155.3
5 Drugs-Eth. ('53 Cl.—100)	474.7	386.8	435.1	435.1
5 Elect. Eqp. ('53 Cl.—100)	384.7	329.2	347.7	351.4
3 Finance Companies	749.2	648.8	749.2	749.2
5 Food Brands	504.1	419.3	481.8	504.1H
3 Food Stores	270.8	245.0	250.2	255.3

(Nov. 14, 1936 Cl.—100)	High	Low	Aug. 19	Aug. 26
High Priced Stocks	299.9	271.9	285.7	287.2
Low Priced Stocks	653.8	556.9	575.2	577.4
5 Gold Mining	1064.2	810.8	983.1	973.0
4 Investment Trusts	170.6	145.0	148.4	151.8
3 Liquor ('27 Cl.—100)	1534.5	1128.3	1173.4	1233.6
7 Machinery	512.8	423.9	444.8	444.8
3 Mail Order	446.1	386.9	400.6	396.0
4 Meat Packing	286.8	223.9	240.3	246.0
4 Mtl. Fabr. ('53 Cl.—100)	208.6	152.5	152.5	154.5
9 Metals, Miscellaneous	399.1	320.8	343.2	350.6
4 Paper	1237.1	918.3	969.3	969.3
16 Petroleum	736.9	609.0	654.2	669.2
16 Public Utilities	390.0	341.6	386.5	390.0H
6 Railroad Equipment	99.8	85.8	87.8	85.8
18 Railroads	70.1	55.9	57.3	57.3
3 Soft Drinks	850.1	690.3	850.1	850.1
11 Steel & Iron	464.9	362.6	376.6	381.2
4 Sugar	100.9	63.0	69.5	67.6
2 Sulphur	655.9	563.1	587.9	594.0
11 TV & Electron. ('27—100)	119.4	96.6	110.7	109.6
5 Textiles	223.0	185.5	189.0	198.7
3 Tires & Rubber	255.9	191.3	204.2	199.0
5 Tobacco	212.6	182.5	212.6	212.6
3 Variety Stores	382.1	352.9	367.5	367.5
14 Unclassif'd ('49 Cl.—100)	295.1	250.3	260.9	258.2

H—New High for 1960.

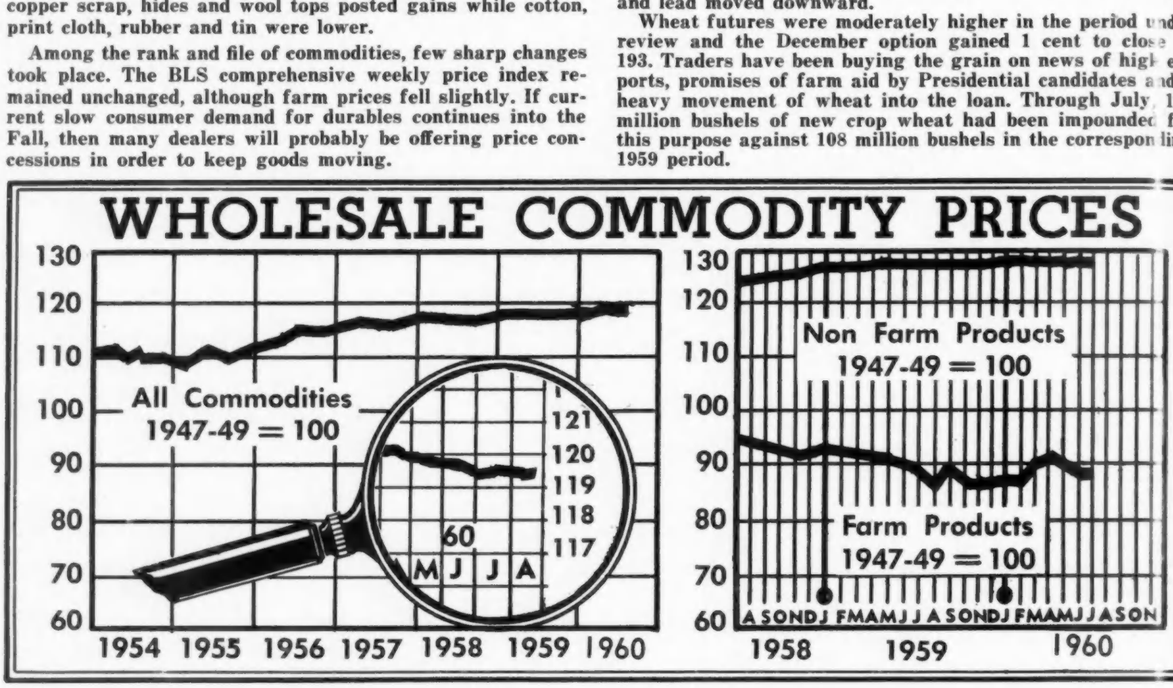
Trend of Commodities

SPOT MARKETS—Leading commodities followed divergent trends in the two weeks ending August 26. The BLS index of spot prices of 22 sensitive commodities lost 0.5% during the period, due to lower quotations for foods. The index of industrial raw materials was slightly higher although as many of the components declined as advanced. In this category, burlap, copper scrap, hides and wool tops posted gains while cotton, print cloth, rubber and tin were lower.

Among the rank and file of commodities, few sharp changes took place. The BLS comprehensive weekly price index remained unchanged, although farm prices fell slightly. If current slow consumer demand for durables continues into the Fall, then many dealers will probably be offering price concessions in order to keep goods moving.

FUTURES MARKETS—Futures prices displayed no clear trend in the fortnight ending August 26. The Dow-Jones Commodity Futures Index hit a new low during the period but rallied to close 0.13 points above its level of two weeks ago. Wheat, corn, oats, soybeans, cotton, wool, domestic sugar and coffee all were higher while lard, world sugar, cocoa, rubber, copper and lead moved downward.

Wheat futures were moderately higher in the period under review and the December option gained 1 cent to close at 193. Traders have been buying the grain on news of high exports, promises of farm aid by Presidential candidates and a heavy movement of wheat into the loan. Through July, 127 million bushels of new crop wheat had been impounded for this purpose against 108 million bushels in the corresponding 1959 period.



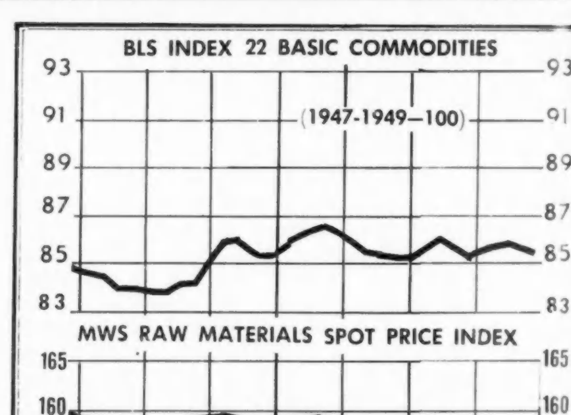
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Aug. 23	119.4	119.4	119.1	60.2
Farm Products	Aug. 23	86.9	87.1	87.1	51.0
Non-Farm Products	Aug. 23	128.3	128.3	128.4	67.0
22 Sensitive Commodities	Aug. 26	85.3	85.7	87.2	53.0
9 Foods	Aug. 26	76.9	77.9	78.6	46.5
13 Raw Ind'l. Materials	Aug. 26	91.6	91.4	93.4	58.3
5 Metals	Aug. 26	95.1	95.2	96.4	54.6
4 Textiles	Aug. 26	78.9	79.0	80.0	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1960	1959	1953	1951	1941
High of Year	160.0	161.4	162.2	215.4	85.7
Low of Year	154.5	152.1	147.9	176.4	74.3
Close of Year		158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1960	1959	1953	1951	1941
High of Year	148.7	152.7	166.8	215.4	84.6
Low of Year	142.9	144.2	153.8	174.8	55.5
Close of Year		147.8	166.5	189.4	84.1



Is Real Economic Growth Possible Today?

(Continued from page 670)

willing to work hard to get them." —*and speaks volumes for the advantage of free enterprise for the common man as against totalitarian bureaucratic government.*

Despite Ill-Considered or Politically Motivated Criticism it is Obvious that U.S.A. Has Made Unequalled Gains

Actually, the economic progress made by the United States in the last 14 years certainly is not insignificant. Employment has advanced on the average by nearly 800,000 a year. In real terms, the nation's output of goods and services, as well as its personal income has increased by more than 50% or at a rate of 3.2% per year; and the output of the private sector has advanced at a slightly higher rate, 3.5%.

The annual increase of 3.2% in total output, which corresponds to a doubling every 22 years, is roughly equivalent to the long-term average reached in our previous history. Thus the American economy has sustained its long-term record of growth, despite the high level of industrial development already achieved and despite temporary setbacks.

To belittle this long-term record of economic progress and to state that an arbitrarily selected higher rate of growth must be made a principal objective of political planning is to say that socialism will do a better job for us than our free enterprise system.

Stripped of its trappings, the establishment of fixed economic goals by the central government is little different from Soviet Russia's Five Year Plans or Communist China's "Forward Leap." Such plans leave little or no room for economic freedom—the right of the individual to dispose of his income as he sees fit—to consume or to save, to invest or not to invest.

How to Achieve Our Purpose

Rather than to establish as a national economic goal a pre-determined rate of economic growth, attention should be focussed on maximizing incentives in our free economic society. This calls for shared responsibility by both the Federal Government, individuals and private groups.

As indicated earlier, Federal action to smooth out economic fluctuations affords an important opportunity to promote growth. Governmental decisions relating to the volume and character of public expenditures have significant effects on the health of the economy and on its prospects for vigorous and sustainable growth.

Taxes—The way taxes are levied is another factor affecting the advance of productivity and output. Our tax system should give encouragement to productive effort and should facilitate the mobility and efficient use of capital. A continued review of the tax system from these standpoints as well as from the standpoint of equity is needed.

Government Finances—Another way in which the Federal Government can make an important contribution to an environment favorable to economic growth is through the constructive and sound management of its finances. *This involves providing evidence in actual results of the ability and determination to control governmental expenditures.* The importance of fiscal discipline in curbing inflation psychology at home and in keeping the dollar sound as an anchor of stability in an uncertain world, cannot be emphasized too strongly. The president made the issue clear in his special message to Congress on May 3:

> *"For America's sake, we must resist the temptation, this year or any year, to overspend the taxpayer's hard-earned dollars and overcentralize responsibilities in the Federal Government. If we fail in this, we will weaken our hope of ever controlling Federal extravagance and will indefinitely postpone debt retirement and tax relief. At the same time we will debase our currency, invite the resurgence of dangerous inflationary forces, undermine local and state responsibility, and thus erode away America's strength at home and in the world."*

In the final analysis, it is the role of private initiative which is most important in creating the favorable climate necessary for growth in our economy. Government's contribution is, of course, vital. But it is basically passive in our free enterprise system, while individuals and corporate entities play the active roles. This follows logically from the fact that ours is a free economic society rather than a socialistic government-dominated.

Under Central Government Economic Control in the U.S.A. the Huge New Costs Involved Would Practically Double Your Taxes

To insure the technical and scientific progress necessary, we must look to gigantic increases in the amount of capital needed to provide the principal foundation for America's economic growth in the future.

Can the government, already under the heavy burden of deficit spending, provide these funds without levying new heavy taxation? I doubt it!

Already, expenditures on research and development have expanded about 500% in the fifteen years since the end of World War II, and it is estimated that they aggregated more than $60 billion in the decade of the 1950's and will total close to $12½ billion in the year 1960. Large corporations such as General Motors, General Electric, United States Steel, Standard Oil of New Jersey, Union Carbide and others, plus the smaller corporations together with various research foundations, are spending billions of dollars at an ever increasing rate to create new and better products. These new products will in turn create new industries, new jobs and better values for the consumer's dollar.

As an example, the development of television, together with technological improvements, which made it possible to price sets to tap mass markets has created employment for millions, not only in the production and merchandising of the sets, but in the entertainment programs which are telecast. Another example is synthetic fibers and synthetic rubber, which have revolutionized the textile and rubber industries and given consumers more and better products for their money.

These examples are merely selected at random and they could be expanded many times, particularly in the fields of chemicals,

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Realistic Appraisal of Outlook for Automobile Industry

(Continued from page 690)

credit following each year of peak sales. Since, in 1959, auto sales rose 30 per cent over the total for 1958, a recession year, and this year's indicated total of around 6.5 million cars (including imports of 450,000) will again be almost 10 per cent higher than last year's total, it would violate this pattern if the industry were to exceed its 1960 performance next year. It would not be surprising, in fact, if sales should decline 5 or 10 per cent as a reaction from over-strenuous efforts to sell cars this year. The trend towards cheaper vehicles, will, however, help to overcome the downward tendency in unit sales.

Less Satisfactory Product Mix

Consumer resistance to the high cost of buying and operating an automobile is evident not only in the sales success of the new compact cars. It is also being demonstrated in the pronounced shift toward the purchase of six cylinder cars, whereas eight cylinder models were outstanding favorites only two or three years ago. Among the 1961 models Pontiac's compact Tempest will even be a four cylinder model, and if this car proves a success, a general downward movement from eights and sixes to sixes and fours may be anticipated. On the average, a six cylinder car sells for $113 to $125 less than an eight cylinder model.

In the 1961 lines a greater selection of body styles will be available among the compacts. For example, Chevrolet's Corvair will offer station wagon, truck and possibly convertible models for the first time. Rambler's American will also offer a station wagon and a convertible. Such moves, coupled with the rise in the number of compact brands from six to ten, will greatly increase the share of the market absorbed by these low-profit economy cars. Compared with the 25-30 per cent share of total car sales which compacts will account for in 1960 this ratio is likely to rise in 1961 to 40 per cent.

This means that, as against 1.5 million compact car sales this year, the total for next year may be between 2.1 and 2.4 miillion.

Heavy Inventory Of 1960 Models

For the near term, the industry will have to reduce greatly dealers' present heavy stocks of unsold 1960 cars, before the 1961 models are introduced. Nearly all makers are giving their dealers large "build-out" bonuses, to help them move the 1960's which totaled over 1 million cars—or a two months' supply—as of August 1. Retail car sales in August appeared to have responded satisfactorily to these incentives. Still, a complete cleanup before new model introductions is quite unlikely. In any event, the industry will go into the 1961 season with inventories at least 300,000 units higher than as of January 1, 1960; this will tend to reduce output and factory sales next year by a similar amount.

Position Of General Motors

The individual companies are adjusting as rapidly as they can to the new more competitive market conditions.

General Motors was able to complete the first half with record-breaking sales. But its net profits failed to set a record, and second quarter net was actually lower than a year ago. This reflected heavy developmental cost absorption.

For the year as a whole, nevertheless, General Motor's net profit should be the best for any year since 1955, provided that the fourth quarter production schedule is maintained at the level now indicated.

General Motors has been less severely affected by the movement toward economy cars than the other two members of the Big Three. Its standard-size cars — particularly Chevrolet — have remained popular, and GM has improved its penetration in the standard field. GM feels that the standard cars will continue to constitute the bulk of its business in the future. Just the same, it is introducing three new compact cars, and is taking other steps which will tend to reduce its profit per car sold.

Like other car producers, GM is in the position of having to "run twice as fast just to stand still." But its strong position in overseas areas and its broad industrial diversification plus the Acceptance Corporation give it additional stability at this time.

Standard Ford Line Severely Affected by Compacts

Ford has had a disappointing year, in spite of its highly successful introduction of the compact Falcon and Comet lines. These new cars, in their first year, have battled Rambler, the established compact originator neck-and-neck for leadership.

But its standard Fordline, the nation's volume leader in 1959 has gone into a tailspin ever since the Falcon line was brought out. The Ford formerly accounted for a very substantial percentage of Ford Motor Company's overall profits. Falcon profits per unit must be well below those realized on the standard line. But Ford was able to conceal the full impact of this shift by eliminating the heavy losses on the unsuccessful Edsel line recently abandoned.

Next year, with Falcon and Comet facing more rugged competition, the standard Fordline will have to stage a brisk recovery from its poor 1960 showing if Ford profits per unit sold are to improve. Despite an extensive restyling job on the larger Ford cars it is somewhat doubtful whether Ford can accomplish this feat.

Chrysler's Problems

Chrysler, notwithstanding a sharp gain in units sold in the first half of this year — 694,751 against 539,554 in the same period of 1959—has seen its net income slashed from $6.65 a share to $2.69. This set-back reflects the lower profit on the Valiant, as well as heavy costs of premium-priced steel, bought for 1960 as a result of the steel strike last year. The non-recurring steel costs will end, but in other respects the profit squeeze is likely to grow worse in the 1961 model year. The management is also being harassed by stockholder suits growing from unpleasant disclosures surrounding the resignation of its president, Mr. W. C. Newberg.

American Motors Resist Competition

One company not worrying about competition with its own

NEWS ON TEXACO PROGRESS

From two horses to 200-horsepower

YESTERDAY—"petroleum" was primarily kerosine, the fuel that fed the lamps and cooking stoves of America. Sold by local grocery and hardware merchants, it was delivered to them once a week. It was Texaco that first met the urgent need for twice-weekly deliveries, with its horsedrawn tank wagons. Daily deliveries soon followed.

TODAY—the chief product of petroleum is gasoline, moved swiftly from storage point to market in giant, modern tank trucks. Today Texaco's fleet of red trucks serves more than 39,000 Texaco Dealer stations across the nation. Alert marketing operations, based on service to America's motorists, have contributed to Texaco's continued growth.

TEXACO

larger models is **American Motors** which made a highly satisfactory showing in boosting its sales in the first seven months of the present year to 268,494 from 221,859 in the same period of 1959. For 1961, President George Romney is forecasting that Rambler sales will account for 9 to 10 per cent of the total market, compared with about 7 per cent for 1960. Yet Mr. Romney may find it somewhat difficult to make good on this forecast, in the face of so many new entries in the compact car field. His sharply restyled and attractive 100-inch American should account for a larger share of the company's total sales, and will undoubtedly be popular. But Rambler's larger 108-inch line may find the going a little rougher.

Considerably more vulnerable to the stampede of all producers into the compact field, where its Lark had enjoyed a brief success in 1959, **Studebaker-Packard** has sustained a sharp decline in both volume and profit. Its outlook in the automobile field in 1961 is even less encouraging. The possible silver lining in this company's dark cloud is its substantial tax loss which would prove valuable if it can effect a satisfactory merger with a successful company in some other field.

It is clear that the automobile industry as a whole is going to be harassed by difficult problems in the forthcoming year. Over the longer run the present revolutionary developments could spell greater opportunities. But in the meantime they will certainly take a toll on profits. END

Assessing The Fortunes Of The Rubber Companies

(Continued from page 697)

life in many areas of the rapidly growing plastics industry, with price increases almost an unknown phenomenon.

With the deterioration of polyvinyl chloride prices previously optimistic earnings estimates by the company for 1960 have had to be revised downward to the point where little gain is anticipated in spite of the long and costly strike that occurred in 1959. Over the longer term growth in Goodrich's operations would seem to involve improvement in manufacturing efficiency and the development of new products with the aid of the company's broad experience in the chemical industry, and its top quality management.

Revitalization of U.S. Rubber—During the past five years this company has gone through an important period of revitalization and rebuilding to meet the present day competitive opportunities and challenges in the rubber industry. This program has included a brand new research center and greatly expanded research and development efforts. Included also is a general overhaul of the company's marketing operations with respect to replacement tires so that the company will some day have a sizeable chain of company-owned retail outlets.

In the past, earnings of U.S. Rubber have been more cyclical than those of the other major companies in this industry largely because of the relatively higher percentage of original equipment tires sold. The lower profit margins and the considerable senior capital per common share have also added leverage to these earnings. However, these same factors provide opportunities for the future in that the relatively small common stock capitalization of 5.7 million shares as compared with estimated 1960 sales of about $1 billion implies that improvements when they do occur should have a relatively greater impact on per share earnings. For 1960, earnings are estimated as equal to or slightly below the $5.30 per share reported in 1959. The relatively low price earnings ratio of the stock reflects somewhat the market's apprehension regarding general business conditions and the past cyclical character of earnings.

General Tire depends upon affiliates and derived about 25% of its total earnings from Aerojet-General, 25% from RKO-Radio Pictures, and about 50% from all other activities in 1959. Aerojet-General is the largest and most diversified manufacturer of rocket engines. The company holds important contracts for the production of rocket engines for the first and second stage of the Titan ICBM missile, second stage of the Minuteman ICBM, first and second stage of the Polaris missile and contracts for the development of the Air Force's new air-launched ballistics missile. As the result of the rapidly growing importance of rockets in the nation's defense posture, Aerojet's sales have grown rapidly and the trend seems likely to continue.

Earnings from RKO operations in 1960 will probably be below the 1959 results since the company will probably run out of tax loss credits during the fourth fiscal quarter. A recently proposed plan to reapportion certain television stations could, however, have a very beneficial affect on results in 1961 for this division. The company's tire business has been hurt by lower profit margins and higher natural rubber costs. The recent leveling off of business has also affected the company's plastic operation and a number of miscellaneous industrial products. Because of the highly leveraged capitalization and heavy participation in defense programs, the stock is generally considered to be more speculative than the other four tire producers previously discussed.

Position of the Smaller Companies

Seiberling Rubber, like many of the other small rubber companies, has been hurt rather severely by the reduction in tire prices, poor weather conditions in the early part of the year and higher natural rubber costs. Earnings for 1960 are estimated as likely to decline substantially below the $1.72 per share reported in 1959. In addition to these general industry problems **Dayco Corporation** has suffered from sharp reductions in prices for foam rubber and plastics, plant start-up costs, inventory losses and expenses related to a five-week strike. For the nine months ended July 31, the company has estimated a net loss of $2,600,000 vs. a profit of $1,816,000 for the corresponding period in 1959. As a result of this unfavorable earnings trend the company has omitted the common stock dividend that would normally have been paid in the fourth fiscal quarter. Another of the smaller rubber companies, **Lee Tire and Rubber Corporation**, has also been experiencing problems of start-up expenses on seven new branches and increased plant capacity as well as the ad-

Steel for automobiles: another area of growth at

NATIONAL STEEL

The automotive industry is now completing one of its biggest years. Production will run about 11% more than in 1959. And the persistent increase in number of families, the move to the suburbs, the growth of multiple car households all point toward a steady and substantial increase in the demand for cars . . . and the steels of which they are made.

National Steel has long been identified with the automobile. The automotive industry is America's biggest customer for hot and cold rolled sheets and strip and our Detroit division, Great Lakes Steel Corporation, has consistently supplied a major proportion of these requirements.

In addition to its dramatic growth as a steel consumer over the years, the auto industry has constantly provided a fertile field for new steel products. Great Lakes Steel and also our Weirton Steel division of Weirton, West Virginia, have worked closely with auto makers to meet this need for the new. Weirton, for example, recently developed differential-coated galvanized steel to solve a special automotive problem, and much greater use of galvanized, in this and other forms, is plainly indicated for the future.

In such ways, we have grown along with the auto industry and we will continue to do so. This is one of the principal aims of our current $300,000,000 expansion program. For Great Lakes Steel, it includes a substantial increase in steelmaking capacity and the "mill of the future"—which will begin operation in 1961 as the world's fastest and most powerful strip mill and the first to have an electronic computer incorporated in its original design. Its assignment is to meet peak demands of the auto industry with the finest quality steel yet produced.

So, automotive steel is another important area of growth in which National Steel Corporation, in cooperation with its customers, concentrates its long experience in steelmaking and its research facilities on exploration of new ways to future progress.

This STEELMARK of the American steel industry tells you a product is steel-made, steel-modern and steel-strong. Look for it when you buy.

Steel

NATIONAL STEEL

NATIONAL STEEL CORPORATION, GRANT BUILDING, PITTSBURGH, PA. Major divisions: Great Lakes Steel Corporation • Weirton Steel Company
Midwest Steel Corporation • Stran-Steel Corporation • Enamelstrip Corporation • The Hanna Furnace Corporation • National Steel Products Company

verse factors affecting the industry as a whole. Earnings declined sharply for the six months ending April 30 and it is expected that for the fiscal year ending October 31 earnings will be substantially below the 1959 results. The current trend in earnings raises some question regarding the safety of the $0.30 quarterly dividend. END

Exploration And Development... Opening Up The Canadian Wilderness In British Columbia

(Continued from page 683)

resources along the route of the proposed line. Geological surveys indicate the presence in this area of rich deposits of lead, zinc, silver, asbestos and nickel. Pulp wood reserves along the line should also be sufficient to supply the raw material for at least six new pulp mills.

● This same group has also formed the **Peace River Development Corporation** to tap the power reserves of the tributaries of the Peace River and other waterways along this line. This project conflicts, however, with another scheme advocated by the British Columbia government to develop first the Canadian section of the Columbia River, far to the south.

Mineral Resources

As already suggested, British Columbia also possesses a wide variety of metallic mineral wealth. This includes silver besides such base metals as copper, lead and zinc. One of the largest lead-zinc deposits in North America is located on the properties of the **Consolidated Mining & Smelting Company of Canada, Ltd.** at Trail, close to the International Boundary. These mines have contributed more than half of Canada's zinc and lead production during recent years. The corporation is now building western Canada's first iron and steel smelter, to have an annual capacity of over 100,000 tons, at Kimberly, near Trail. This will be merely the first step in a twenty million dollar project which will eventually result in the production here of pig-iron, steel ingots and rolled steel products both for western Canada and world markets.

Extensive exploration during the past decade has revealed many other promising indications of copper and zinc, but the low prices for these metals and the depressed condition of the United States market has retarded the development of new properties.

During the past year, however, the upward turn in world copper prices and the development of a new market for British Columbia metals in Japan have given a new stimulus to prospecting in this whole area. American and Canadian mining corporations such as **Phelps Dodge, Cerro de Pasco, American Metal Climax** and **American Exploration** are now active again in exploration work in the province, and some properties which had been inactive during the past few years have now been reopened.

Base metal production in the province should enjoy a continued revival during the next few years provided that world prices hold firm and the U.S. Congress does not place any further restrictions on the entry of Canadian metals into the States.

Immense Water Power Resources

To mention one final advantage, British Columbia's water power resources are immense and among the largest in the whole of Canada. The great rivers which flow westwards through the Selkirks and the Coastal Range on their way to the Pacific include the Canadian section of the Columbia, the Fraser, the Bella Coola and the Skeena, which with their numerous tributaries, are capable of generating vast quantities of low-cost electrical energy. A joint plan sponsored by the Canadian and the American governments for the harnessing of the power reserves on the Canadian section of the Columbia River and one of its major tributaries, the Kootenay, has run into various diplomatic snags but indications suggest that work may finally begin on this project in the near future. Other immense and so far untapped power reserves will greatly aid the industrial expansion of this province during the years to come.

In Sum

It would be a little too hackneyed to describe ths area as "America's last frontier." Nevertheless, the combination of a territory so rich in valuable natural resources, not too remote from markets, and at the same time possessing a stable government and economic climate approaches the unique in the modern world. **Obviously, the opportunities for investment in such an environment are numerous, although the risks inherent in all pioneering projects cannot be disregarded.**

As has been pointed out, various American companies have subsidiaries or affiliates operating in British Columbia and such indirect participation is usually the wiser course for conservative investors.

While American capital will undoubtedly continue to be welcome in this Pacific Coast province, as in other parts of Canada, any concentration of outside ownership frequently causes friction, even between the best of neighbors. Accordingly, it is to be hoped that the natural wealth just described will be developed largely by Canadian enterprise in which Americans will participate advantageously. American investors, whether or not directly involved, will watch this adventure with keen interest. END

Automobile Accessories Facing Varied Problems

(Continued from page 694)

for the full year. Earnings of $2.70 were reported last year. No long term debt is outstanding. Cash and marketable securities amount to about $4 per share after deducting current liabilities.

Libbey-Owens-Ford Glass is currently encountering a variety of problems, including smaller glass requirements for the new compact cars, rising imports of foreign glass, substitution of cheaper glass in car windows by its principal customer—General Motors, and reduced activity in the building industry. Moreover, future contracts with General Motors will require only one year's notice of cancellation rather than the two-year notice which had prevailed in the past. Although heavy dependence on a single customer (General Motors accounted for about two-thirds of 1959 sales) could prove harmful, the company is strongly situated in the construction industry and

THE MOST POWERFUL TRUCK IN THE WORLD

moves copper ore—

75 TONS AT A TIME!

A far cry from the miner's mule of the '80s, this new mammoth ore truck performs Herculean tasks in Anaconda's Berkeley Pit at Butte, Montana. Still in the experimental stage, the gigantic vehicle hauls ore up-grade out of the pit, 75 or more tons at a time. Designed to replace Diesel trucks with less than half the capacity, it operates electrically on special trolley wires and each of its four outsized wheels can deliver 400 horsepower, a total of 1600 horsepower—making it the most powerful truck in the world. Without a load, it can leave its trolley wires and operate on 350 horsepower supplied by its own Diesel generator.

Huge as it is, Anaconda's new truck is in proportion with the vast Butte operation. One of the richest mineral areas ever discovered, Butte has supplied industry with more than *three billion dollars in mineral wealth.* Up to 1959, more than 7 million tons of copper had been mined at "the richest hill on earth"—which has also been a bountiful source of zinc, manganese, lead, silver and gold.

Current production at Butte continues to set king-sized standards, and the new king-sized ore truck is part of a system which moves more than 28,000 tons of ore a day at the Berkeley Pit. This is just one reason why the Company's ore production is consistently on the increase. Not only with new and highly efficient equipment, but through continuing exploration and constant development of new copper sources, such as the new El Salvador Mine recently opened in Chile, Anaconda meets the growing needs of industry for more and better products in the entire nonferrous metal field.

60185A

ANACONDA®

SUBSIDIARIES OF ANACONDA MANUFACTURE: COPPER AND ALUMINUM ELECTRICAL WIRES AND CABLES; ALUMINUM FOIL, SHEET, ROD AND BARS, STRUCTURALS, TUBING AND EXTRUDED SHAPES; COPPER, BRASS AND BRONZE SHEET, PLATE, TUBE, PIPE, ROD FORGINGS AND EXTRUSIONS; FLEXIBLE METAL HOSE AND TUBING.

should benefit from the trend toward increased use of glass in new buildings. Earnings in 1960 may be close to $4.00 per share, down from the record $5.13 posted in 1959. This would still make 1960 the second best year in its history. Capitalization consists solely of common stock. Cash and equivalent of some $71 million compares very favorably with current liabilities of $25 million. Profit margins are good and future growth potentials are present.

The largest manufacturer of tapered roller bearings, **Timken Roller Bearing,** also produces high-quality specialty steels which account for some 30% of its total revenues. Possible wide-scale use of roller bearings by the railroad industry could provide substantial additional business. Financing was required last year to purchase the minority interest in British Timken Ltd. at a cost of $31 million. Operations are also being expanded in other foreign areas. Earnings in 1960 may fall to about $5.00 per share from the record $5.60 in 1959 but this would still represent the second best year in the company's history.

Another bearing producer, **Federal-Mogul-Bower,** serves a broad list of customers in various industries, with the auto industry most important. Replacement business is fairly substantial. Like Timken, earnings in 1960, possibly $2.00 per share, will probably be the second best on record. The company has shown considerable growth in recent years and the outlook for further improvement over the longer term is favorable.

Companies Strong on Research and Diversification

Some of the larger companies that have been identified with the auto parts industry for many years now derive the bulk of their business from other industries as a result of acquisitions and new product development through research. **Borg-Warner** is a good example, with automotive products, at one time the principal source of revenues, now down to less than one-third of the total. Appliances, air conditioning and building equipment and materials now account for about one-third, and the remainder is represented by petroleum equipment and services, chemicals, utility and steel products, and agricultural equipment. Reflecting lower appliance sales as well as reduced profit margins in other areas, earnings this year may fall to the $3.25 per share level, down from $4.36 in 1959.

Management is aggressive and heavy capital expenditures should help enlarge the earnings base in the future.

Bendix Corporation offers substantial participation in such varied growth fields as military and civilian electronics, aviation equipment, industrial communications and atomic energy, in addition to being a producer of auto parts. Research and development expenditures, including amounts paid for under government contracts, approximate $120 million. Earnings in the fiscal year ending September 30, 1960, are likely to show a decline from the $5.37 reported in the previous fiscal year. The longer term outlook seems encouraging.

Thompson Ramo Wooldridge derives the major portion of its business from sales in the electronic, missile and space category (40%). Roughly one third comes from parts and assemblies for manned aircraft and one fourth from automotive parts such as valves, fuel pumps and power steering pumps. Earnings were well maintained in the first half and full year results should approximate the $3.02 per share reported in 1959. If the company's anti-smog device for automobiles proves acceptable, sales and earnings could show substantial gains— but this also depends on competition from other makers.

Summary

The revolutionary change in demand by consumers to smaller, more economical cars is restricting unit profits of car manufacturers and auto parts suppliers alike. As a result, a greater number of units must be produced in order to obtain the same amount of sales and profits as formerly. Although unit volume over coming months may compare favorably with year-earlier levels, when the steel strike began cur-

tailing auto production, it appears that lower production levels are likely unless the new model cars prove exceptionally attractive to economy-minded car buyers. Therefore, the profit picture for auto parts companies looking into 1961 is not particularly bright despite further diversification moves. However, the long term outlook for strongly situated, well-managed parts companies with substantial diversification in growth fields is favorable.

END

Russia's Gold Ruble . . . The Commies' Propaganda Hoax

(Continued from page 677)

that the very convertibility which these holders of rubles were betting on might be an eventual result of the new decree, which itself will make their present currency holdings worthless after March 1961.

Although Moscow's new "hard" currency presents no meaningful change in anything connected with the valuation of Soviet products, except to remove an extra zero from bookkeeping entries, it could be played up as making it "easier to compare accurately the value of Soviet and foreign products." (A U.N. Economic Committee for Europe report recently quoted Soviet State Bank Chairman A. Korovashkin in this respect). **However, the introduction of the new ruble may well be a stepping-stone to Soviet plans for the creation of a convertible ruble.**

The Next Step: Convertible Ruble Balances?

Such a development, to be meaningful, would depend upon the acceptance of the ruble as a unit of accounting in international trading circles. This would be a necessary prerequisite, as the quality of potential convertibility into gold would not in itself attract foreign ruble balances. **The convertibility aspect would, however, serve as an inducement to expand the use of the ruble in global commerce.**

Oscar Altman, an International Monetary Fund advisor, analyzed the problem of ruble deposit balances in a recent IMF Staff Paper article. The main points reviewed were the following: ► 1) **the U.S.S.R. would find it advantageous to have foreigners, especially from countries with which the Soviets run balance of payments deficits, maintain ruble deposit balances. Moscow could thus increase its imports without accelerating exports or resorting to gold sales abroad.**

The Soviets would be short term borrowers, in effect paying relatively low interest on deposit balances; ► 2) non-residents could hold working ruble balances similar to present dollar or sterling balances, to be used either to pay for future imports or to purchase other currencies; ► 3) the U.S.S.R. does not import from, or export to all countries at the same price; the terms of trade for an individual country in a particular situation could be made favorable enough so that the nation involved would be induced to hold swing balances in rubles — that is, the holding of ruble balances up to a certain amount, arising from a temporary trade deficit. When the Soviets pay more than the going world market price for certain needed imports, under bilateral arrangements, the U.S.S.R. usually ships goods at a later period, therefore, the trading partner would maintain a ruble deposit balance until both ends of the bilateral transaction had been completed; ► 4) short term capital movements of gold, dollars and other externally convertible currencies could theoretically create convertible ruble deposits; these balances, in gold-backed rubles, could possibly be attracted by favorable interest rates and through protection against the possibility of devaluation.

However, Mr. Altman states, and the writer agrees, that the **"development of a short term money market in Moscow would certainly depend upon simultaneous far-reaching changes in the trading relations between the U.S.S.R. and the rest of the world. At present, such changes seem to be quite out of the question. Nevertheless . . . . they are**

by no means impossible at some future date."

To Sum Up

Soviet monetary developments are but one part, — **but an important segment, of the overall drive towards expansion and intensification of the influence and power of the U.S.S.R. throughout the globe.**

Recent events have led to increasing speculation as to the creation of a convertible gold backed ruble, its effects and implications. Conclusions have been drawn in various circles ranging from acute alarm to scornful rejection of any such possibility. As is usually the case, a more sober, balanced and realistic appraisal would probably lie between the two extremes.

An objective recapitulation would show that:

► 1) the Soviets, in both monetary policy and economic organization, are paradoxically turning more and more to classic capitalistic doctrines and theories;

► 2) the eventual creation of a gold-backed convertible currency fits into this pattern;

► 3) the U.S.S.R., China and the rest of the Soviet bloc still account for too small a percentage (less than 12%) of total world trade to permit the ruble to become a real international currency;

► 4) the Russian economy is as yet not sufficiently diversified so as to have an adequate total supply of goods available for both internal distribution and large-scale export;

► 5) the present Soviet price and cost structure, reflecting a gap between external and internal valuations and making country-to-country comparisons difficult or impossible, still hinders wider acceptance of the ruble as a trading unit;

► 6) the present exchange parity of the ruble is and has been unrealistic, a statement confirmed by black market quotations averaging only 8% of the basic official rate;

► 7) the Soviets *do* have a strong gold position, with the world's second largest stock, and a production on a par with or exceeding South Africa's, which has been the highest on the globe;

► 8) the introduction of the hard ruble in January 1961 is *not* an isolated move, but more likely one of the preliminary steps in longer-range Russian plans for more international acceptance of her currency and more prestige value among the underdeveloped countries; and

► 9) we may look for a series of well-spaced and gradual moves towards the development of some form of a convertible ruble.

We have, in the past, consistently tended to underestimate the Soviets, and not only in the economic sphere. A gold-backed ruble could become a workable reality, even if it is not immediately likely. It would be wrong to close our eyes to the possibility and its significance for us. END

Companies With Finance Affiliates Are Setting A Fashion

(Continued from page 673)

the advantages which they offer suggest that this movement will be extended rapidly.

Why a Separate Corporation?

While the use of credit at all levels is growing very rapidly credit itself is, of course, nothing new. Manufacturers have been extending it to customers, at least on open book account, for years. The question therefore arises as to why credit is now being increasingly handled through controlled but separately organized subsidiaries rather than merely by departments of the manufacturing or retailing companies involved.

The most important reason is probably the lower cost of funds to finance the operations of an independent credit affiliate. Although such affiliates may be entirely controlled by their parents, their assets are, of course, rigidly segregated, and these assets, consisting primarily of receivables secured upon relatively new vehicles and appliances, are of very high quality from a lender's point of view. Thus, the credit organization can undoubtedly obtain lower rates and more favorable terms from banks or, in a few instances, upon publicly offered bonds, than its parent en-

aged primarily in manufactur- ng could do.

The credit affiliate also enjoys more flexibility than a mere department of its parent could possess. It may, for example, invest its assets in unrelated activities if they would otherwise be inactive, or even finance the receivables of other companies.

The credit affiliate does, however, step on the toes of other established institutions and may also raise some threat of government intervention. The extension of short-term credit has always been a natural concomitant of any manufacturing operation, but the acquisition of receivables running over a period of months, or even years, represents a trespass into the field formerly monopolized by banks and the traditional credit organizations. Particularly in the automotive field such organizations as Commercial Credit and CIT have had close ties with the manufacturers and have been largely dependent upon this business. And apparently influenced by the flexibility of company affiliates, they have themselves diversified into factoring and even manufacturing.

There is always a possibility of course that in an era of politically motivated trust-bursting, a close tie-up of manufacturing, sales and credit components will not be unnoticed by the government. In fact, some years ago (1936) the government attempted to make the automobile companies sever all relationships with financial organizations. *General Motors fought that order and eventually won a compromise, on the strength of which Ford was able to reactivate its own financing affiliate last year. And it hardly seems likely that Ford would have gone into this new enterprise unless it had reason to believe that it could do so without fear of becoming involved with the Justice Department.*

Possibly the provision that such affiliates remain obliged to leave dealers and customers entirely free to patronize any credit organization was a determining legal factor, and we can be sure the companies will bend over backwards to avoid any impression of undue influence. Even so, in this period of leftist influence we can always expect some threats of the forcible divorce of manufacturing parents from financing affiliates to be occasionally heard in Congressional halls.

What This Means To The Investor

Barring possible legal prohibition. it seems certain that many additional credit affiliates will be set up within the early future. The advantages which they offer in theory have been demonstrated in practice by the companies which have already established them.

The extent to which financing subsidiaries can ever become a major contributor to parent company earnings will undoubtedly depend on whether operations remain a small appendage of their respective manufacturing or merchandising enterprises, or branch out into other fields. Nevertheless they are most useful in enabling a company to render a better service to customers, helping to bring and retain business. At the same time they should be entirely profitable in terms of return on investment. Thus, in two ways, a well conducted credit affiliate can be regarded both as a *plus value* in appraising the investment merit of any company and as a visible sign of competent management.

END

Reappraising 1960-61 Outlook For Steel

(Continued from page 687)

million cans a year, against total annual can output of 16 to 20 billion cans. And even this foothold is not too firmly held, for the aluminum entrance into the citrus field has been effected by "promotional" sales of the light metal at cost. Such severe price cutting can hardly be sustained indefinitely.

► Another important new product is the A36 structural steel, which is 10 per cent stronger than the steel framework which has gone into buildings until now. This new high-strength steel, by reducing building costs about 4 per cent, will help the steel industry meet the challenge of cement construction, particularly in pre-stressed forms.

► Steel producers have also developed *new enameling sheets* for the appliance industry; *vinyl coated steel* for the construction and office equipment industries; *high-strength steel* for missiles and rockets, among many other new products. This pace of new product introduction is a fruit of the tenfold increase in steel spending for research during the last decade.

These innovations suggest that too much attention is being placed on the low operating rate of the steel industry. The pattern of steel production is changing. Each year, there is less emphasis within the industry on sheer tons of output.

► What is important is that a more highly refined and processed product, which does more things and does them better, is being

turned out. In job after job, for example, 100 tons of carbon steel are being replaced with 90 tons of high-strength steel.

► In the automobile industry, where the trend towards the new compact design is reducing car size, steel usage per vehicle will be declining. The compact cars take 700 to 900 pounds less steel than standard size cars. But even here, the trend is not as unfavorable to steel as it appears at first sight. The compact cars use more galvanized sheets to protect the unitized bodies against corrosion; galvanized sheets are a higher cost product than ordinary uncoated carbon steel sheets—a silver lining in the compact car cloud.

► The steel industry has been completely rebuilt since the war. The investments have been wisely made in the main, although, as it is now evident, the industry was a little over-optimistic regarding the nation's requirements for steel, and expanded its capacity more rapidly than has proved necessary. But it could not afford to be caught with inadequate capacity, because of its importance to the economy in peace as well as in war. Underexpansion could have been more dangerous than oxerexpansion.

Relative Earnings Stability

Since 1946 the industry has invested $15 billion, of which $12 billion has gone into capital improvements and $3 billion has been added to working capital. In the period 1946 through 1949, the industry earned an average of 9.6% on its capitalization. In 1950-53 inclusive, highlighted by 1950's high profits, it earned 10.3%.

During the period 1954 through 1959 two recessions besides the costly steel strike of 1959 were encountered. Yet the industry still enjoyed a 9.7% return upon its investments.

The industry's large capital investment program has aided it in maintaining and improving its total dollar profits during the postwar years. This program is paying off in several ways.

Introduction of Oxygen Converters

● Through the heavy use of oxygen, the capacity of the open hearth furnace can be increased 10 to 15%. Or, expressed in another way, oxygen will speed up the time required to make the average heat of steel by a similar 10 to 15 per cent. While the industry may not need this increase in capacity for some years, it can certainly make good use of the gain in efficiency achieved through the use of oxygen. Labor costs are thus reduced, and high cost open hearth furnaces (particularly the smaller and older ones) may be retired, on the basis of the increased production of the newer ones.

Of the 980 open hearth furnaces in the country, less than 200 have thus far been equipped to make full use of the latest developments in oxygen usage. Hence, over the next ten years, the industry will be able to boost its open hearth capacity by 10 million tons at relatively low cost.

● Similarly, substantial investments are being made in new type oxygen furnaces, in which basic brick, which resists high temperatures resulting from the use of oxygen, is being installed. **The investment is a one million ton oxygen furnace is only $15 a ton, against $35 a ton for open hearth capacity. Moreover, pig iron can be refined to steel in only 20 minutes in an oxygen furnace effecting substantial reductions in labor costs.**

● Substantial economies are also being effected in iron making. Only a few years ago, blast furnaces averaged less than 1,100 tons of iron a day each, and only the newest ones produced as much as 2,000 tons a day. Now as a result of pre-treatment of ore and coal, and other technological developments, the average output of all furnaces has been raised to 2,500 tons a day. And further improvements lie ahead.

Weapons Against Foreign Competition

In competing with foreign steel producers, the steel industry has taken a close look at the facts and is encouraged by its prospects for meeting this competition. The industry has not sought higher protective tariffs; it feels that while labor costs are lower abroad, productivity is also lower there. Furthermore, steel consumption is rising rapidly abroad, and foreign producers are likely to be obliged for some time to take care of their home markets first. Advantages possessed by domestic steel producers include lower raw material costs (including coal and ore), promptness of delivery and better service (such as technical assistance) for customers.

The upturn from recent low levels of operation—around 50 to 55% of capacity—has been slower in developing during the latter part of the summer than anticipated. This delay has been caused largely by the heavy inventories of auto makers and their slow build-up in production of 1961 model cars.

But the steel industry is in good shape for a vigorous comeback to level of about 70% later this year, and to even higher levels next year or in 1962.

Waiting for the Inventory Turn

Inventories of steel users are

low. Moreover, they are becoming more dependent on quick deliveries from the mills. A point may be reached some time in the next few weeks, or the next few months, where steel users will find that the steel companies are not able to provide them with all the steel that they need for early delivery, within one to four weeks. When that happens, a gradual movement will start to get orders on steel mill books. Inventory cutting will end, and may be replaced by inventory building. This is the normal history of inventory-cutting cycles.

When the upward movement in steel operations resumes, the current pessimism about the steel industry's future—both for the short term as well as for the longer range—should be quickly dissipated. END

Is Real Economic Growth Possible Today?

(Continued from page 705)

drugs, electronic equipment of all types as well as in many other areas. These products of research and technological improvements, by satisfying consumer wants and increasing efficiency, provide the building blocks for true economic growth and follow the path that in the past has proved the greatness of the U.S. system.

Increased utilization of machinery and power have been the underlying contributing factors in the great gains in worker productivity in the last half century of our nation's economic history. *This has been made possible by tremendous increases in the amount of capital in use.*

On the average, the efforts of each United States worker are supplemented by an investment of more than $10,000 in plant and equipment, and the figure is even higher in such industries as chemicals, petroleum and steel. ● The total amount of capital goods per worker has doubled since 1900. ● Estimates are that it would cost the vast sum of $750 billion to replace all the machinery, equipment and buildings—now being used by businesses of all sorts. ● Experience around the world indicates that countries which take steps necessary to produce a high rate of capital investment will usually meet the requirements for growth.

In the postwar period the United States has invested about 11% of each year's production in new plant and equipment. This annual investment supported an increase of almost 4% per year in the total stock of plant and equipment in actual use. *This investment, in turn, supported an average annual growth in the nation's total production of goods and services of almost 4% per year.*

Growth Inevitable Under Free Enterprise

Since 1900 our population has doubled but our per capita production has nearly tripled. At the start of the century each American had working for him in machinery the force of two horsepower: today about 10 horsepower. In the decade from 1947 to 1957 the annual kilowatt hours used by workers in manufacturing rose from 150 billion kwh. to 323 billion, or from 11,000 to 25,000 kwh. on a per worker basis.

Most projections made by competent economists and research organizations indicate that based upon existing conditions, a continuation of a rapid and perhaps accelerating rate of growth appears to be in prospect for the United States. This is without the assumption of any "pump-priming" activities on the part of the Government.

During the next decade, the United States economy is expected to grow at least as rapidly as in the years since World War II. As the decade begins, national output in the United States has reached $500 billion. The compounding effects of a substantial growth rate on such a high initial base are expected to result in sharp increases in national output, consumer income and personal spending.

These projections of course assume the continuance of peace, and that the cost of labor will not further upset the price structure, which would open our domestic markets to intensive foreign exploitation and, at the same time, cut heavily into our foreign trade.

They also assume that the American economy will grow in the future as it has in the past, in response to the normal incentives provided by a free market and a government interested in growth, *but not interested in taking the dominant role in forcing growth through gigantic public spending programs.*

It is apparent that real national economic growth entails the acceptance by all segments of the country of responsibility for pursuing sound national economic policies which will make sustainable growth possible. Merely calling for growth, without qualifying the type of growth desired or specifying that it must be exclusive of dangerous inflationary elements, is demagoguery pure and simple on any count in the face of the irrefutable facts of economic life. END

For Profit And Income

(Continued from page 699)

Recently at a new all-time high and currently at 33, the stock yields only some 2.4% and the price-earnings ratio looks relatively high. But there is a reason for this. The company developed the homogenized-tobacco-leaf-binder process, which effects economies, and from which it is getting important and rising royalty income; and has developed a similar process of cigar wrappers, from which maximum results are yet to come. We cannot say what they might be, but a rise in 1961 earnings seems likely; and the stock has established an uptrend pattern that still looks incomplete.

Market At Critical Stage

(Continued from page 667)

Labor—Facing us too, at this time is the problem presented by the strength of organized labor and its continuous demand for higher wages, which, on the one hand, has an inflationary effect on prices — and, on the other hand, a deflationary effect on corporate earnings — where prices cannot be raised to meet the increases, due to intensified domestic and foreign competition.

Altogether, we are now about to face a clarification of the various issues and what has been said above should enable subscribers to decide on the issues they would be willing to leave undisturbed—and those they would rather dispose of.—Friday, Sept. 2.

Are Your Securities

OUT OF LINE

— with Investment-Business Prospects? — With Your Own Aims?

Some of the securities you own may have been a good buy when you acquired them ... but may be a better sale today.

We have never advocated continuous switching of issues—but the *conservative investor should be the first* to replace any securities which, through change, no longer measure up to the standards of quality, income or growth he wants to maintain in his portfolio.

Never before has there been such an avalanche of new products, "special use" materials, new techniques — with activities ranging from the ocean depths to outer space. Certainly this is no time for a "do nothing" investment policy.

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Expert Analysis of Your Present Holdings:

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Thereafter—your securities are held under the constant observation of a trained, experienced Account Executive. Working closely with the Directing Board, he takes the initiative in advising you continuously as to the position of your holdings. It is never necessary for you to consult us.

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